

## **Q4 2011 STOCKHOLDER PRESENTATION**

FEBRUARY 9, 2012



### SAFE HARBOR STATEMENT

# SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This presentation contains statements that, to the extent they are not recitations of historical fact, constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Reform Act"). All such forward-looking statements are intended to be subject to the safe harbor protection provided by the Reform Act. Actual outcomes and results could differ materially from those forecast due to the impact of many factors beyond the control of American Capital Mortgage Investment Corp. ("MTGE"). All forward-looking statements included in this presentation are made only as of the date of this presentation and are subject to change without notice. Certain factors that could cause actual results to differ materially from those contained in the forward-looking statements are included in our periodic reports filed with the Securities and Exchange Commission ("SEC"). Copies are available on the SEC's website at <a href="https://www.sec.gov">www.sec.gov</a>. MTGE disclaims any obligation to update our forward-looking statements unless required by law.

The following slides contain summaries of certain financial and statistical information about MTGE. They should be read in conjunction with our periodic reports that are filed from time to time with the SEC.



#### **MTGE OVERVIEW**

#### THE COMPANY

 An externally managed mortgage REIT formed to invest throughout the total mortgage market including both agency and non-agency sectors

#### **OUR INVESTMENT OBJECTIVE**

 Provide attractive risk-adjusted returns to our investors over the long-term through a combination of dividends and capital appreciation

#### **GUIDING PRINCIPLES**

- Asset selection is the most important driver of returns
- Patience is critical when committing capital in the non-agency space
- ◆ Capital allocation between agency and non-agency mortgages must be dynamic and incorporate risk/return projections, macro-economic factors and liquidity considerations
- Repositioning assets and hedges is necessary to respond to changing market conditions
- As a levered investor, protecting our book value against significant declines is critical



### FOURTH QUARTER HIGHLIGHTS

- \$1.72 per Share of Net Income
  - ✓ Net income includes all unrealized gains and losses on investment and hedging portfolios, due to fair value option election and no hedge accounting
- \$0.86 per Share of Net Spread Income<sup>1</sup>
  - Excludes \$0.86 per share of other investment related net gains
- \$ 1.07 per Share of Estimated Taxable Income<sup>2</sup>
- \$0.80 per Share Dividend Declared
- \$0.24 per share December 31, 2011 estimated undistributed taxable income
  - ✓ Increased \$0.27 per share from \$(0.03) per share as of September 30, 2011
- \$20.87 Net Book Value per Share as of December 31, 2011
  - ✓ Increased \$0.91 per share from \$19.96 per share as of September 30, 2011, including impact of \$0.80 per share dividend declared
- 34% Annualized Economic Return
  - Comprised of \$0.80 per share dividend and \$0.91 per share increase in net book value



### **ADDITIONAL FOURTH QUARTER HIGHLIGHTS**

- \$1.8 Billion Investment Portfolio as of December 31, 2011
  - √ \$1,740 million agency investments
  - √ \$76 million non-agency investments¹
- 8.0x Leverage as of December 31, 2011<sup>2</sup>
  - √ 7.5x average leverage for the period<sup>3</sup>
- 5% Agency Portfolio Actual CPR for the Quarter<sup>4</sup>
  - √ 4% agency portfolio actual CPR for the month of December 2011<sup>5</sup>
  - √ 11% average projected life CPR for agency securities as of December 31, 2011
- 2.40% Annualized Net Interest Rate Spread for the quarter<sup>6</sup>
  - ✓ 2.38% net interest rate spread as of December 31, 2011
    - 1. See slide 10 for the composition of MTGE's non-agency portfolio
    - 2. Leverage calculated as the total repurchase agreements less net receivable/payable for unsettled purchases and sales of securities divided by total stockholders' equity as of December 31, 2011. If the Company purchases investment securities and finances the purchase through a repurchase agreement with the same counterparty, entered into simultaneously or in contemplation of each other, the purchase commitment and repurchase agreement are recorded net on the financial statements as a derivative ("Linked Transaction"). The repurchase agreement balance included in the Company's leverage ratio includes repurchase agreement financing recorded as Linked Transactions totaling \$37 MM as of December 31, 2011
    - 3. Average leverage calculated as the daily weighted average repurchase agreement balance outstanding divided by average month-ended shareholders' equity
      - Actual weighted average monthly annualized CPR published during Oct, Nov and Dec 2011 for agency securities held as of the previous month-end
    - 5. Actual weighted average annualized CPR published during Jan 2012 for agency securities held as of December 31, 2011
    - 6. Net interest rate spread includes impact of net periodic interest settlements of interest rate swaps and net spread on Linked Transactions

## **M**ARKET INFORMATION

Security	3/31/2011	6/30/2011	9/30/2011	12/31/2011	<b>Q4 2011</b> Δ	Security	3/31/2011	6/30/2011	9/30/2011	12/31/2011	<b>Q4 2011</b> Δ
	15 Y	ear Fixed R	ate Mortgag	es			30 Y	ear Fixed R	ate Mortgag	jes	
3.0%	97.47	99.36	103.02	103.28	0.26	3.5%	94.22	95.69	102.70	102.88	0.18
3.5%	100.08	101.83	104.41	104.58	0.17	4.0%	98.14	100.02	104.78	105.03	0.25
4.0%	102.61	104.2	105.45	105.50	0.05	4.5%	101.55	103.52	106.06	106.42	0.36
4.5%	104.67	106.05	106.47	106.59	0.12	5.0%	104.42	106.27	107.53	108.03	0.50
						5.5%	106.77	108.23	108.53	108.89	0.36
						6.0%	108.67	109.92	109.7	110.16	0.46
		Treasury	Rates					Swap F	Rates		
2 Yr UST	0.83%	0.46%	0.25%	0.24%	-0.01%	2 Yr Swap	1.00%	0.70%	0.58%	0.73%	0.15%
5 Yr UST	2.28%	1.76%	0.95%	0.83%	-0.12%	5 Yr Swap	2.47%	2.03%	1.26%	1.22%	-0.04%
10 Yr UST	3.47%	3.16%	1.92%	1.88%	-0.05%	10 Yr Swap	3.57%	3.28%	2.11%	2.03%	-0.08%

	3/31/2011	6/30/2011	9/30/2011	12/31/2011
S&P 500	1,326	1,321	1,131	1,258
Investment Grade Index (Spread)	96	91	144	120
High Yield Index (Price)	102	102	87	93
Subprime Index '07 AAA	43	40	35	34
CMBS Index 06/07 AAA	95	94	87	91
RMBS/CMBS BWIC Quarterly Volume (Notional \$B)	92	103	53	44
Case-Shiller 20 City	138	141	143	140
Purchase Index	201	189	177	177

#### Sources

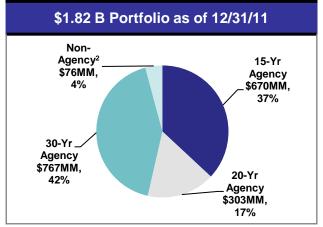
- Agency pricing and Treasury and Swap rates: Combination of Bloomberg and dealer indications
- 2. S&P 500: Price data from Bloomberg
- Investment Grade Index: Markit CDX Investment Grade 5yr index. Price data from Bloomberg
- 4. High Yield Index: Markit CDX High Yield 5yr Index. Price data from Bloomberg
- Subprime Index: Markit ABX 07-1 AAA index. Price data from Barclays Capital
- 6. CMBS Index: Markit CMBX Series 3 AAA. Price data from Barclays Capital
- 7. BWIC volume data from RBS
- 8. Case-Shiller: Standard and Poors data pulled from Bloomberg. Not seasonally adjusted
- Purchase index: Mortgage Bankers Association Seasonally Adjusted Purchase Index. Data from Bloomberg

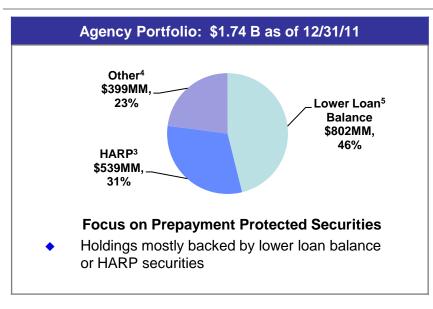


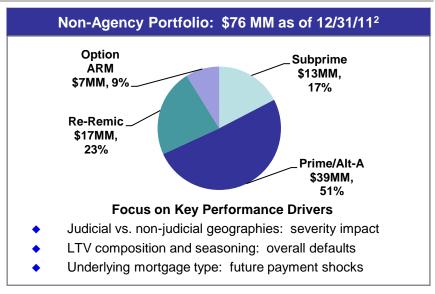
## PORTFOLIO AS OF DECEMBER 31, 2011

GIVEN THE CHALLENGING MARKET BACKDROP WE HAVE BEEN PATIENT AND SELECTIVE REGARDING THE NON-AGENCY PORTFOLIO

Capital Allocation Summary							
(\$ in Millions)	Agency	Non-Agency					
Market Value	\$1,740	\$76 <sup>2</sup>					
Assumed Leverage <sup>1</sup>	8.8x	1.5x					
Capital Allocation <sup>1</sup>	85%	15%					









- Assumed Leverage and Capital Allocation amounts include the impact of allocating guarter-end cash balances as a reduction in agency funding
- 2. See slide 10 for the composition of MTGE's non-agency portfolio
- 3. HARP securities, defined as 100% refinance loans with LTVs ≥ 80% and ≤ 125%
- 1. Includes \$254 MM in 20-year securities
- . Lower loan balance securities represent pools with max original loan balances ≤ \$150 K

# **Non-Agency Portfolio**





#### NON-AGENCY MARKET UPDATE

# NON-AGENCIES ARE ATTRACTIVE IN THE CURRENT ENVIRONMENT; HOWEVER, CAREFUL SELECTION IS ESSENTIAL AS BOTH FUNDAMENTAL AND TECHNICAL ISSUES REMAIN

#### Housing Showing Positive Signs but Challenges Persist

- Supply/demand of overall housing market becoming more balanced, despite lackluster housing start activity since the bubble years
- Clearing prices of distressed homes stabilizing
- ✓ However the current and future pipeline of distressed borrowers is extremely significant.
  - Potential to overshoot fundamentals based on process to work through delinquent borrowers
  - While affordability has improved, tight credit and willingness to buy are large hurdles

#### Non-agency Bond Market Adjusting to Lower Volumes and Risk Appetite

- Deterioration in supply and liquidity through the fourth quarter
  - Combination of upcoming regulatory changes and lower supply led to increase in price volatility
- Given this backdrop, selectivity continues to be the focus
- A constructive start to the new year, as Maiden Lane supply was easily absorbed in the midst of relatively strong economic data



### Non-Agency Market and Illustrative Returns

# CAREFUL ASSET SELECTION OF NON-AGENCY SECURITIES CAN RESULT IN ATTRACTIVE RETURN OPPORTUNITIES

	Re-Remic	Prime/Alt-A	Option ARM	Subprime
Asset Yield	5-6%	6-8%	8-10%	9-11%
Leverage	2.50x	1.50x	1.00x	0.75x
ROE (1)	12-15%	12-16%	14-17%	14-18%

#### Investment Themes Across Sectors

- Limit exposure to securities with:
  - Geographies with a negative housing outlook
  - Loans with large upcoming payment increases
  - Returns that are highly variable with the timing of liquidations
- ✓ Higher exposure to securities with:
  - Better than average home equity
  - Amortizing loans generating positive equity
  - Attractive base case yields with little reliance on credit burnout



## **Non-Agency Portfolio Composition**

(in millions)	<u> </u>	Fair Value As of December 31, 2011						
(Unaudited)	Non-Agencies	Linked Transactions	Total					
Prime / Alt-A	\$ 11.0	\$ 27.5	\$ 38.5					
Option ARM	-	6.7	6.7					
Subprime	6.0	7.2	13.2					
Re-Remic	8.6	8.8	17.4					
Total	25.6	50.2	75.8					
Repurchase agreements	(8.4)	(36.6)	(44.9)					
Net non-agency investment	\$ 17.2	\$ 13.7	\$ 30.8					

If the Company purchases investment securities and finances the purchase through a repurchase agreement with the same counterparty, entered into simultaneously or in contemplation of each other, the purchase commitment and repurchase agreement are recorded net on the financial statements as a derivative ("Linked Transaction")

## **AGENCY PORTFOLIO**

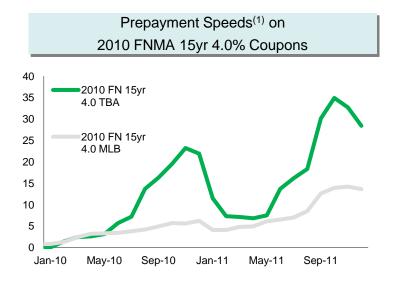


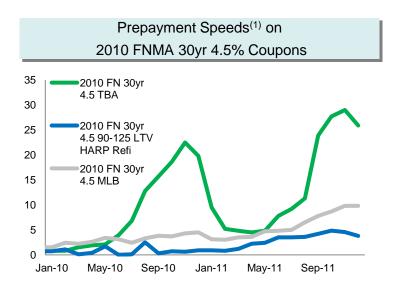


## PREPAYMENT RISK - No TIME FOR COMPLACENCY

DESPITE RECENT DECLINES IN PREPAYMENT SPEEDS, PREPAYMENT RISK IS STILL **ELEVATED** 

- Leading indicators point to higher prepayments for much of the mortgage universe
  - Mortgage rates are back to record lows
  - Mortgage Bankers Association Refinance Index is near recent highs
  - HARP 2.0 should start to kick in
  - QE3 is still a real possibility
- In contrast, we expect that pools backed by lower loan balance and HARP loans will continue to perform favorably







#### WELL POSITIONED FOR CURRENT PREPAYMENT LANDSCAPE

# OUR 15-YEAR AND 30-YEAR HOLDINGS REMAIN HEAVILY WEIGHTED TOWARD LOWER LOAN BALANCE AND HARP SECURITIES

- Increased exposure to lower coupon 20-year mortgages, based on relative value considerations
- Despite record low rates, average portfolio prepayment speeds remained very tame during Q4
- Minimize "organic" prepayment risk:
  - 95% of our 15-year securities are backed by either lower loan balances<sup>1</sup> or HARP<sup>2</sup>
  - ✓ Approximately 86% of our 30-Year securities are backed by either lower loan balances <sup>(1)</sup> or HARP<sup>(2)</sup>
- Minimize "policy" prepayment risk:
  - Less than 0.3% of our agency portfolio was comprised of fixed-rate collateral issued prior to 2009

15-Year Agency - as of 12/31/11							
(\$ In Millions)	Market Value	%	Coupon	WALA	1 month Actual CPR <sup>4</sup>	Proj Life CPR <sup>5</sup>	
Lower Loan Balance <sup>1</sup>	\$605	90%	3.66%	7	4%	11%	
HARP <sup>2</sup>	\$31	5%	3.75%	10	0%	10%	
Other <sup>3</sup>	\$34	5%	4.00%	7	1%	16%	
Total 15-Year	\$670	100%	3.68%	7	4%	11%	

(\$ In Millions)	Market Value	%	Coupon	WALA	1 month Actual CPR <sup>4</sup>	Proj Life CPR <sup>5</sup>
HARP <sup>2</sup>	\$49	16%	5.00%	9	5%	13%
Other <sup>3</sup>	\$254	84%	3.65%	3	4%	15%
Total 20-Year	\$303	100%	3.86%	4	4%	15%

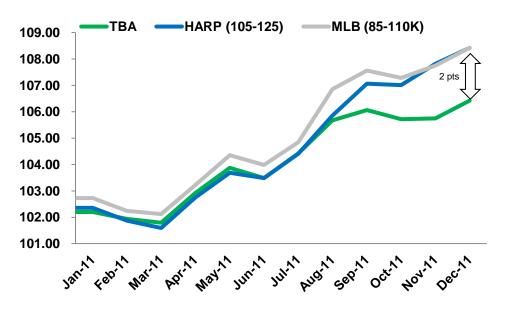
30-Year Agency - as of 12/31/11

20-Year Agency - as of 12/31/11

(\$ In Millions)	Market Value	%	Coupon	WALA	1 month Actual CPR <sup>4</sup>	Proj Life CPR <sup>5</sup>
Lower Loan Balance <sup>1</sup>	\$197	26%	4.38%	12	8%	10%
HARP <sup>2</sup>	\$459	60%	4.44%	8	4%	10%
Other <sup>3</sup>	\$111	14%	4.05%	4	3%	13%
Total 30-Year	\$767	100%	4.37%	8	5%	11%

- 1. Lower loan balance securities represent pools with maximum original loan balances ≤ \$150 K. Weighted average original loan balance of \$106 K and \$101 K for 15 YR and 30 YR securities, respectively, as of December 31, 2011
- HARP securities, defined as 100% refinance loans with LTVs ≥ 80% and ≤ 125%. Weighted average LTV of 110%, 116%, and 96% for 15 YR, 20 YR, and 30 YR securities, respectively, as of December 31, 2011. Weighted average premium to TBA as of December 31, 2011 of 50/32nds
- 3. Includes collateral backed by loans that are not HARP and with maximum loan sizes >\$150k
- Actual weighted average annualized 1 month CPR published during January 2012 for agency securities held as of December 31, 2011
- Average projected life CPR for agency securities held as of December 31, 2011

# THE DIFFERENCE IN PRICES BETWEEN SECURITIES WITH THE SAME COUPON DEMONSTRATES HOW CRITICAL ASSET SELECTION IS TO BOOK VALUE PERFORMANCE



2011	TBA Price	HARP (105-125 LTV) Price	HARP-TBA Pay Up	MLB (85-110K) Price	MLB-TBA Pay Up
3/31/11	101.80	101.59	-0.2	102.12	0.3
6/30/11	103.48	103.48	0.0	103.98	0.5
9/30/11	106.06	107.06	1.0	107.56	1.5
12/31/11	106.42	108.42	2.0	108.42	2.0

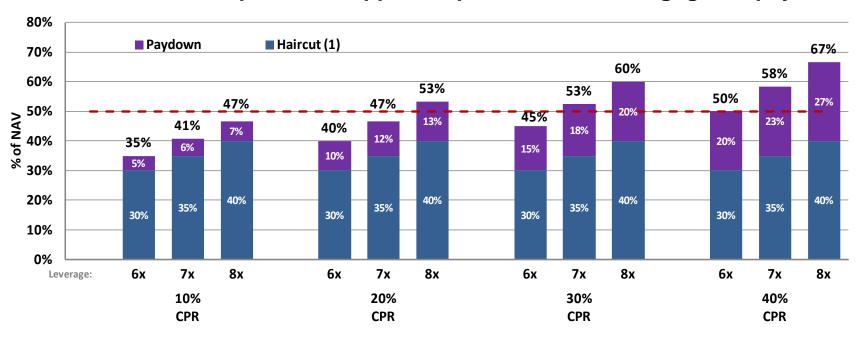
- ◆ The graph compares the pricing between various FNMA 4.5% 30-year mortgage-backed securities:
  - ✓ TBA or generic mortgages (green line)
  - ✓ HARP securities with LTVs between 105-125 (blue line)
  - ✓ MLB securities with original loan sizes between \$85-\$110K (gray line)



## PREPAYMENT SPEEDS IMPACT LEVERAGE CAPACITY

TIMING DIFFERENCE BETWEEN PREPAYMENT FACTOR RELEASES ("PAYDOWN") AND CASH PAYMENTS ACT AS ADDITIONAL HAIRCUT REQUIREMENTS WITH SLOWER PREPAYMENTS FACILITATING GREATER LEVERAGE FOR A GIVEN AMOUNT OF EQUITY

#### Percent of NAV Required to Support Repo Haircuts & Mortgage Prepayments



	Leverage Assuming 50%	 	
10% CPR → 8.4x	20% CPR → 7.5x	30% CPR → 6.6x	40% CPR → 6.0x



Assumes a 5% haircut

<sup>50%</sup> NAV threshold for illustrative purposes

#### FINANCING SUMMARY

#### As of December 31, 2011

- Master Repurchase Agreements with 22 Financial Institutions
- 0.42% Weighted Average Repo Cost of Funds
  - ✓ Weighted average repo cost for agency collateral of 0.37%
  - ✓ Weighted average repo cost for non-agency collateral of 2.12%

MTGE Repurchase Agreement Borrowings	
(\$ in millions – as of December 31, 2011)	

Original Repo Maturities	Repo Outstanding <sup>1</sup>	% of Total Outstanding	Interest Rate	WA Days to Maturity	WA Original Days to Maturity
30 Days or less	\$87	5%	0.58%	11	28
31 – 60 Days	\$360	20%	0.49%	19	35
61 – 90 Days	\$375	22%	0.41%	31	68
91 – 120 Days	\$785	45%	0.36%	37	92
Greater than 120 Days	\$136	8%	0.48%	209	274
Total / Weighted Average	\$1,743	100%	0.42%	44	86



### **HEDGING SUMMARY**

#### Interest Rate Swaps

- √ \$875 MM notional swap book as of 12/31/11¹
  - 4 years average remaining maturity
  - 50% of repo balance hedged by interest rate swaps
    - Increases to 53% when incorporating net unsettled sales of securities

Interest Rate Swaps <sup>1</sup>	
interest rate owaps	
(A in millions of Bosombou 04, 0044)	
(\$ in millions – as of December 31, 2011)	
(+	

Maturity	Notional Amount	Pay Rate	Receive Rate	WA Years Remaining to Maturity
2014	\$100	0.64%	0.50%	2.7
2015	\$450	0.85%	0.48%	3.4
2016	\$250	1.23%	0.47%	4.5
2018	\$25	1.73%	0.43%	6.8
2019	\$25	1.83%	NA <sup>1</sup>	7.1
2021	\$25	2.30%	NA <sup>1</sup>	9.9
Total / Weighted Avg.	\$875	1.03%	0.48%	4.0

### Other Hedge Positions

- √ \$101 MM net short mortgage TBA position
- ✓ 2 swaptions totaling \$50 MM notional with weighted average pay rate of 2.81%, 10-year underlying swap terms and weighted average expiration of 0.8 years



#### **DURATION GAP INFORMATION**

#### DURATION GAP WAS APPROXIMATELY (0.13) YEARS AS OF DECEMBER 31, 2011

- Duration is an estimate of an instrument's expected price change for a parallel change in interest rates
- Duration gap is a measure of the difference in the interest rate exposure or estimated price sensitivity of our assets and our liabilities and hedges (but does not take into account the impact of leverage on our equity or NAV)
- Duration Gap is expressed in years relative to the market value of our assets
- Duration gap does not consider the negative convexity of our mortgage assets
- Slide 26 presents the modeled impact of our duration gap including the impact of negative convexity and leverage

Duration Gap (\$ in millions, duration in years)			
Assets	Market Value	Duration	
Agency <sup>1</sup>	\$1,740	2.38	
Non-Agency <sup>2</sup>	\$76	0.00	
Cash	\$61	0.01	
Total	\$1,876	2.21	
Repurchase Agreements & Hedges	Market Value / Notional	Duration	
Repurchase Agreements <sup>2</sup>	(\$1,743)	0.12	
Swaps	(\$875)	3.80	
Swaptions	(\$50)	2.49	
Treasury / Futures	(\$50)	4.83	
ТВА	(\$104)	4.58	
Total		(2.34)	
Net Duration Gap as of December 31,	2011	(0.13)	

Our duration and duration gap estimates are derived from models that are dependent on inputs and assumptions provided by third parties as well as by our investment team and accordingly actual results could differ materially from these estimates. In addition, different models could generate materially different estimates using similar inputs and assumptions. Management uses judgment to address the limitations and weaknesses inherent in model calculations as it seeks to balance the protection of book value with the generation of attractive returns. Please also refer to slide 30 and our related disclosures in our Form10-K for a more complete discussion of duration (interest rate risk)



Fixed rate securities for the purpose of duration include securities purchased and sold on a forward basis accounted for as derivatives

## **BUSINESS ECONOMICS**

(unaudited)	As of 12/31/11		Q4 2011			
	Agency	Non-Agency	Total	Agency	Non-Agency	Total
Asset Yield <sup>1</sup>	2.87%	7.43%	3.06%	2.91%	7.39%	3.10%
Cost of Funds <sup>1,2</sup>	(0.63%)	(2.12%)	(0.68)%	(0.65)%	(2.09)%	(0.70)%
Net Interest Rate Spread	2.24%	5.31%	2.38%	2.26%	5.30%	2.40%
Leverage <sup>3</sup>	8.8x	1.5x	8.0x	8.2x	1.4x	7.5x
Leveraged Net Interest Rate Spread	19.7%	8.0%	18.9%	18.6%	7.6%	18.0%
Plus: Asset Yield	2.9%	7.4%	3.1%	2.9%	7.4%	3.1%
Gross ROE Before Expenses	22.6%	15.4%	22.0%	21.5%	14.9%	21.1%
Other Investment Income, Net						16.8%
Other Miscellaneous <sup>4</sup>						(0.7)%
Management Fees as a % of Equity			(1.5)%			(1.5)%
Other Operating Expenses as a % of Equity			(1.9)%			(2.0)%
Total Operating Exp. as a % of Equity			(3.4)%			(3.5)%
Net Return on Equity			18.6%			33.7%

- 1. Asset Yield and Cost of Funds reflect the gross impact of Linked Transactions
- 2. Cost of funds includes the impact of periodic interest settlements of interest rate swaps
- 3. Leverage as of December 31, 2011 is calculated as total repurchase agreements, adjusted for net receivables/payables for unsettled purchases and sales of securities divided by total stockholders' equity. December 31, 2011 repurchase agreements include financing recorded as Linked Transactions totaling \$37 MM. Average leverage for the quarter is calculated as the daily weighted average repurchase agreement balance outstanding, including Linked Transactions of \$34 MM divided by average month-ended shareholders' equity
- 4. Other miscellaneous reflects the impact of differences between the use of daily averages used for investment securities and repurchase agreements and the month-end average used for shareholders' equity, of cash and cash equivalents, restricted cash, other non investment assets and liabilities, and of other immaterial rounding differences



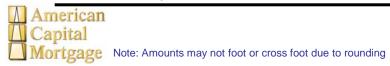
## SUPPLEMENTAL SLIDES





## **INCOME STATEMENTS**

(\$ In millions, except per share data) (Unaudited)	For the Three Months Ended December 31, 2011	For the Period From August 9, 2011 (date operations commenced) Through September 30, 2011	For the Period From August 9, 2011 (date operations commenced) Through December 31, 2011
Interest income			
Agency securities	\$11.8	\$4.0	15.8
Non-agency securities and other	0.5	0.1	0.6
Interest expense	(1.4)	(0.4)	(1.7)
Net interest income	10.9	3.7	14.7
Realized gain on agency securities, net	1.0	2.4	3.4
Realized loss on periodic settlements of interest rate swaps, net	(1.2)	(0.6)	(1.7)
Realized loss on other derivatives and securities, net	(0.5)	(3.3)	(3.8)
Unrealized gain on agency securities, net	11.8	2.0	13.8
Unrealized gain (loss) on non-agency securities, net	0.2	(0.7)	(0.4)
Unrealized loss and net interest income from linked transactions, net	(0.2)	(0.8)	(1.1)
Unrealized gain (loss) from other derivatives and securities, net	(3.2)	0.8	(2.4)
Total other gain (loss), net	8.1	(0.3)	7.8
Management fee	(0.8)	(0.4)	(1.2)
General and administrative expenses	(1.0)	(0.6)	(1.6)
Total operating expenses	(1.8)	(1.0)	(2.7)
Net income	\$17.2	\$2.5	\$19.7
Weighted average number of shares outstanding – basic and diluted	10.0	10.0	10.0
Net income per share – basic and diluted	\$1.72	\$0.25	\$1.97
Taxable income per share	\$1.07	\$0.17	\$1.24
Dividends declared per share	\$0.80	\$0.20	\$1.00



### RECONCILIATION OF NET INTEREST INCOME TO NET SPREAD INCOME 1

(Unaudited) Interest income	For the Three Months Ended December 31, 2011	For the Period From August 9, 2011 (date operations commenced) Through September 30, 2011	For the Period From August 9, 2011 (date operations commenced) Through December 31, 2011
Agency securities	\$ 11.8	\$ 4.0	\$ 15.8
Non-agency securities	0.5	0.1	0.6
Interest expense	(1.4)	(0.4)	(1.7)
Net interest income	10.9	3.7	14.7
Interest income on non-agency securities underlying Linked Transactions	0.8	0.2	1.0
Interest expense on repurchase agreements underlying Linked Transactions	(0.2)	(0.0)	(0.2)
Periodic settlements of interest rate swaps	(1.2)	(0.6)	(1.7)
Adjusted net interest income	10.4	3.3	13.7
Total operating expenses	1.8	1.0	2.7
Net spread income	\$ 8.6	\$ 2.3	\$ 11.0
Weighted average number of shares outstanding – basic and diluted	10.0	10.0	10.0
Net spread income per share – basic and diluted	\$ 0.86	\$ 0.23	\$ 1.10



## RECONCILIATION OF TAXABLE INCOME

(\$ In millions, except per share data) (unaudited)	For the Three Months Ended December 31, 2011	For the Period From August 9, 2011 (date operations commenced) Through September 30, 2011	For the Period From August 9, 2011 (date operations commenced) Through December 31, 2011
Net Income	\$17.2	\$2.5	\$19.7
Book to Tax Differences:			
Premium Amortization, Net	1.1	0.3	1.4
Unrealized Gain, Net <sup>3</sup>	(7.6)	(1.1)	(8.7)
Total Book to Tax Differences	(6.5)	(0.8)	(7.3)
Estimated REIT Taxable Income	10.7	1.7	12.4
Weighted Average Shares Outstanding – Basic and Diluted	10.0	10.0	10.0
Estimated REIT Taxable Income per Share – Basic and Diluted	\$1.07	\$0.17	\$1.24
December 31, 2011 Estimated Cumulative Undistributed REIT Taxable Income per Share <sup>1</sup>			\$0.24

American Note: Amounts may not foot due to rounding.

- 1. Based on shares outstanding as of period end
- 2. For a discussion of use of non-GAAP financial information, slide 31
- 3. Reversal of GAAP unrealized gain, net excludes \$0.5 MM of unrealized TBA gains on positions settling in 2012 that are taxable for 2011

## **BALANCE SHEETS**

(\$ in millions, except per share data)		
(Unaudited)	12/31/2011	9/30/2011
Agency Securities, at Fair Value (including pledged assets of \$1,535.4 and \$1,281.5)	\$1,740.1	\$1,621.7
Non-Agency Securities, at Fair Value (including pledged assets of \$8.6 and \$10.0)	25.6	25.9
Linked Transactions, at Fair Value, net	13.7	6.9
Cash and Cash Equivalents (\$3.2 and \$11.2 restricted)	60.5	72.6
Derivative Assets, at Fair Value	1.8	1.5
Receivable for Securities Sold	271.8	110.1
Interest receivable	5.6	5.2
Receivable under Reverse Repurchase Agreements	50.6	25.9
Other Assets	0.6	0.7
Total Assets	\$2,170.3	\$1,870.6
Repurchase Agreements	\$1,706.3	\$1,434.5
Payable for Securities Purchased	189.0	206.6
Derivative Liabilities, at Fair Value	5.7	0.7
Dividend Payable	8.0	2.0
Obligation to Return Securities Borrowed under Reverse Repurchase Agreements, at Fair Value	50.2	25.4
Other Liabilities	2.4	1.6
Total Liabilities	1,961.5	1,670.8
Stockholders' Equity	208.8	199.8
Total Liabilities and Stockholders' Equity	\$2,170.3	\$1,870.6
Leverage <sup>1</sup>	8.0x	7.8x
Book Value Per Share	\$20.87	\$19.96



Note: Amounts may not foot or cross foot due to rounding

<sup>1.</sup> Leverage calculated as the sum of total repurchase agreements (including \$37 MM related to Linked Transactions) and net receivable / payable for unsettled purchases and sales of securities, divided by total stockholders' equity as of December 31, 2011

## **BOOK VALUE**

Roll Forward of Net Book Value Per Share (Unaudited) <sup>1</sup>			
Balance – September 30, 2011 \$19.96			
Q4 Net Spread Income <sup>2</sup>	0.86		
Other Investment Related Gains, net	0.86		
Other <sup>3</sup>	(0.01)		
Dividends Declared <sup>4</sup>	(0.80)		
Salance – December 31, 2011 \$20.87			

<sup>1.</sup> Beginning and ending net book value per share and dividends declared calculated based on shares outstanding as of their respective dates. All other amounts calculated based on weighted average shares outstanding during the period

<sup>2.</sup> Includes net periodic interest settlements of interest rate swaps and net interest income from Linked Transactions (see reconciliation from GAAP net interest income to Net Spread Income on slide 22)

<sup>3.</sup> Represents costs related to the completion of our IPO recorded as a reduction in additional paid in capital

Dividend paid on January 27, 2012

#### **EQUITY INTEREST RATE SENSITIVITY**

GIVEN THE NEGATIVE CONVEXITY OF OUR MORTGAGE ASSETS, AN INSTANTANEOUS PARALLEL SHOCK TO INTEREST RATES WILL ADVERSELY IMPACT THE MARKET VALUE OF OUR EQUITY

- The duration of a mortgage changes with interest rates and tends to increase when rates rise and decrease when rates fall
- This negative convexity generally increases the interest rate exposure of a mortgage portfolio over what would be indicated by the duration gap alone
- The estimated impact on the market value of the asset portfolio, net of hedges, is based on model predictions and assumes that no portfolio rebalancing actions are taken

Interest Rate Sensitivity				
Interest Rate Shock (bps)	Estimated Change in Portfolio Market Value <sup>1</sup>	Estimated Change Equity <sup>2</sup>		
-100	-0.8%	-7.3%		
-50	-0.2%	-2.1%		
+50	-0.2%	-1.4%		
+100	-0.7%	-6.2%		

 The estimated change to equity (NAV) includes the impact of leverage and incorporates the dual effects of both duration and convexity

The estimated change in our NAV due to interest rate changes is derived from models that are dependent on inputs and assumptions provided by third parties as well as by our investment team and accordingly actual results could differ materially from these estimates. In addition, different models could generate materially different estimates using similar inputs and assumptions. Management uses judgment to address the limitations and weaknesses inherent in model calculations as it seeks to balance the protection of book value with the generation of attractive returns.

### REPO COUNTERPARTY CREDIT RISK

# OUR FUNDING IS WELL DIVERSIFIED, BOTH GEOGRAPHICALLY AND BY COUNTERPARTY

- Maintained excess capacity with most of our counterparties
- Less than 6% of our equity is at risk with any one counterparty
- Less than 21% of our equity is at risk with the top 5 counterparties

Counterparty Region	Number of Counterparties	Percent of Repo Funding
North America	11	69%
Asia	5	25%
Europe	6	6%

Counterparty Region	Counterparty Rank	Counterparty Exposure as Percent of NAV
	1	5.53%
	2	4.64%
North	3	4.07%
America	4	3.52%
	5	3.08%
	6-11	11.14%
	1	3.12%
	2	3.12%
Asia	3	1.54%
	4	1.47%
	5	0.89%
	1	2.16%
Europe	2	1.60%
Laiope	3	0.98%
	4-6	0.95%

Total Exposure	47.81%
Top 5 Exposure	20.88%



## PORTFOLIO FIXED RATE AGENCY SECURITIES

# MTGE Fixed Rate MBS (\$ in millions - as of December 31, 2011)

#### 15 Year Mortgages

				Amortized Cost	Average	Average Age	Actual 1 Month
Coupon	Par Value	Market Value	% Total	Basis	WAC <sup>1</sup>	(Months)	CPR <sup>2</sup>
3.00%	\$51.4	\$53.3	8%	103.18%	3.45%	2	2.11%
3.50%	\$327.9	\$345.6	52%	104.45%	3.91%	6	3.46%
4.00%	\$230.4	\$245.9	37%	105.94%	4.38%	10	5.58%
4.50%	\$23.7	\$25.7	4%	107.53%	4.86%	8	2.65%
Total	\$633.5	\$670.4	100%	105.00%	4.08%	7	4.10%

#### 20 Year Mortgages

Coupon	Par Value	Market Value	% Total	Amortized Cost Basis	Average WAC <sup>1</sup>	Average Age (Months)	Actual 1 Month CPR <sup>2</sup>
3.50%	\$180.2	\$187.1	62%	103.39%	3.89%	1	0.36%
4.00%	\$58.0	\$61.1	20%	104.62%	4.47%	7	16.11%
5.00%	\$50.2	\$54.4	18%	108.48%	5.38%	9	4.64%
Total	\$288.4	\$302.6	100%	104.52%	4.27%	3	4.30%

#### 30 Year Mortgages

Coupon	Par Value	Market Value	% Total	Amortized Cost Basis	Average WAC <sup>1</sup>	Average Age (Months)	Actual 1 Month CPR <sup>2</sup>
4.00%	\$302.0	\$318.9	42%	104.71%	4.48%	66	2.64%
4.50%	\$303.9	\$328.1	43%	106.85%	4.93%	11	7.40%
5.00%	\$109.4	\$120.0	16%	108.55%	5.33%	7	2.18%
Total	\$715.2	\$767.0	100%	106.21%	4.80%	8	4.60%



<sup>1.</sup> Average WAC represents the weighted average coupon of the underlying collateral. The average WAC of fixed rate securities on a trade date basis as of December 30, 2011 was 4.43% and the weighted average coupon on the fixed rate securities was 4.01%

<sup>2.</sup> Actual 1 month annualized CPR published during January 2012 for agency securities on a trade date basis as of December 31, 2011

## **INVESTMENT MANAGEMENT TEAM**

Gary Kain President	<ul> <li>President and Chief Investment Officer of MTGE and AGNC</li> <li>Responsible for developing and executing all trading, hedging and financing strategies for MTGE and AGNC</li> <li>Previously a Senior Vice President at Freddie Mac, where his group was responsible for managing all mortgage investment activities for Freddie Mac's ~\$700 billion retained portfolio, covering agency and non-agency MBS</li> </ul>
Jeff Winkler Senior Vice President	<ul> <li>Senior Vice President and Co-Chief Investment Officer of MTGE</li> <li>Responsible for developing and executing all trading, hedging, and financing strategies for MTGE</li> <li>Previously a Managing Director and Portfolio Manager with the securitized products fund for both PointState Capital and Duquesne Capital Management <ul> <li>Fund principally invested in non-agency RMBS and agency derivatives</li> </ul> </li> <li>Prior to Duquesne, Mr. Winkler was a senior trader in the non-agency RMBS business at Deutsche Bank</li> <li>Prior to Deutsche Bank, Mr. Winkler worked at Lehman Brothers in their securitized trading group where he held roles in their agency, non-agency and mortgage origination business</li> </ul>
Peter James Federico Senior Vice President & Chief Risk Officer	<ul> <li>Senior Vice President and Chief Risk Officer of MTGE and AGNC</li> <li>Responsible for developing, implementing and maintaining a comprehensive process for identifying, assessing, hedging and monitoring key business and portfolio risks for both MTGE and AGNC</li> <li>Previously Executive Vice President and Treasurer at Freddie Mac where he was responsible for developing and managing risk mitigation strategies for the company's ~\$700 billion retained portfolio</li> </ul>
Christopher Kuehl Senior Vice President Agency MBS	<ul> <li>Responsible for developing and executing trading and hedging strategies for agency mortgage investments</li> <li>Previously a Vice President at Freddie Mac, where he was responsible for setting and executing agency, non-agency and structured mortgage product investment strategy for Freddie Mac's ~\$700 billion retained portfolio</li> </ul>
Aaron Pas, CFA Vice President Non-Agency Portfolio Manager	<ul> <li>Responsible for executing trading and hedging strategies and monitoring the portfolio of non-agency mortgage investments for MTGE</li> <li>Mr. Pas was previously a Director-Associate at Freddie Mac, where he was responsible for managing a \$60 billion portfolio of non-agency mortgage investments</li> </ul>



#### **DURATION GAP**

- ◆ The duration of an asset or liability measures how much its price is expected to change if interest rates move in a parallel manner
  - ✓ For example: an instrument with a 1 yr duration is expected to change 1% in price for a 100 bp move in rates
- Duration gap is a measure of the difference in the interest rate exposure, or estimated price sensitivity, of our assets and our liabilities (including hedges)
  - Requires relatively complex models and different models can produce substantially different results. Furthermore, actual performance of both assets and hedges may differ materially from the model estimates
  - Duration and convexity calculations generally assume all rates move together (2 yr rates, 10 yr rates, swap rates, treasury rates etc.) and this is typically not the case. As such, these calculations do not measure the "basis risk" or yield curve exposure, embedded in these positions
  - ✓ Higher leverage increases the exposure of our book value (or equity) to a given duration gap
- ◆ The duration of mortgage assets also changes as interest rates move. Duration generally extends when interest rates rise and contracts when interest rates fall. This is called "negative convexity" and is generally driven by changes in prepayment expectations, which have historically been correlated with interest rates. Interest rate caps embedded in ARM securities also increase negative convexity
  - ✓ Negative convexity generally increases the interest rate exposure of a mortgage portfolio significantly over what would be indicated by the duration gap alone
- MTGE uses a risk management system provided by Blackrock Solutions to generate these calculations and as a tool for helping us to measure other exposures, including exposure to larger interest rate moves and yield curve changes
  - The base models, settings, and market inputs used to calculate the exposure to various scenarios are also provided by Blackrock Solutions but are adjusted from time to time by MTGE management personnel as needed. Blackrock also periodically adjusts their models in the normal course of business or if new information becomes available
- The inputs and results from the models have not been audited by our independent auditors



### USE OF NON-GAAP FINANCIAL INFORMATION

In addition to the results presented in accordance with GAAP, this release includes certain non-GAAP financial information, including net spread income, estimated taxable income and certain financial metrics derived from non-GAAP information, such as estimated undistributed taxable income, which the Company's management uses in its internal analysis of results, and believes may be informative to investors.

GAAP interest income does not include interest earned on non-agency securities underlying our Linked Transactions, and GAAP interest expense does not include either interest related to repurchase agreements underlying our Linked Transactions, or periodic settlements associated with undesignated interest rate swaps. Interest income and expense related to Linked Transactions is reported within unrealized loss and net interest income on linked transactions, net and periodic interest settlements associated with undesignated interest rate swaps are reported in realized gain (loss) on periodic settlements of interest rate swaps on our consolidated statement of operations. As we believe that these items are beneficial to the understanding of our investment performance, we provide a non-GAAP measure called adjusted net interest income, which is comprised of net interest income plus the net interest income related to Linked Transactions, less net periodic settlements of interest rates swaps. Additionally, we present net spread income as a measure of our operating performance. Net spread income is comprised of adjusted net interest income, less total operating expenses. Net spread income excludes all unrealized gains or losses due to changes in fair value, realized gains or losses on sales of securities, realized losses associated with derivative instruments and income taxes.

Estimated taxable income is pre-tax income calculated in accordance with the requirements of the Internal Revenue Code rather than GAAP. Estimated taxable income differs from GAAP income because of both temporary and permanent differences in income and expense recognition. Examples include (i) temporary differences for unrealized gains and losses on derivative instruments and investment securities recognized in current income for GAAP but excluded from estimated taxable income until realized or settled, (ii) temporary differences related to the amortization of premiums and discounts paid on investments, and (iii) timing differences in the recognition of certain realized gains and losses. Furthermore, taxable income can include certain estimated information and is subject to potential adjustments up to the time of filing of the appropriate tax returns, which occurs after the end of the calendar year of the Company.

The Company believes that these non-GAAP financial measures provide information useful to investors because net spread income is a financial metric used by management and investors and estimated taxable income is directly related to the amount of dividends the Company is required to distribute in order to maintain its REIT tax qualification status. The Company also believes that providing investors with net spread income, estimated taxable income and certain financial metrics derived from such non-GAAP financial information, in addition to the related GAAP measures, gives investors greater transparency to the information used by management in its financial and operational decision-making. However, because net spread income and estimated taxable income are incomplete measures of the Company's financial performance and involve differences from net income computed in accordance with GAAP, they should be considered as supplementary to, and not as a substitute for, the Company's net income computed in accordance with GAAP as a measure of the Company's financial performance. In addition, because not all companies use identical calculations, our presentation of net spread income and estimated taxable income may not be comparable to other similarly-titled measures of other companies. A reconciliation of GAAP net interest income to non-GAAP net spread income is set forth on slide 23.

