

AGNC Investment Corp.
Form 10-Q
August 03, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF
1934

For the quarterly period ended June 30, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF
1934

Commission file number 001-34057

AGNC INVESTMENT CORP.

(Exact name of registrant as specified in its charter)

Delaware 26-1701984
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)

2 Bethesda Metro Center, 12th Floor

Bethesda, Maryland 20814

(Address of principal executive offices)

(301) 968-9315

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter earlier period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller Reporting Company

Emerging growth company

If an emerging growth company, indicate by check mark if registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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The number of shares of the issuer's common stock, \$0.01 par value, outstanding as of July 31, 2017 was 355,550,574.

AGNC INVESTMENT CORP.
TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

| | | |
|----------------|--|-----------|
| <u>Item 1.</u> | <u>Financial Statements</u> | <u>2</u> |
| <u>Item 2.</u> | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>28</u> |
| <u>Item 3.</u> | <u>Quantitative and Qualitative Disclosures About Market Risk</u> | <u>49</u> |
| <u>Item 4.</u> | <u>Controls and Procedures</u> | <u>53</u> |

PART II. OTHER INFORMATION

| | | |
|-----------------|--|-----------|
| <u>Item 1.</u> | <u>Legal Proceedings</u> | <u>53</u> |
| <u>Item 1A.</u> | <u>Risk Factors</u> | <u>53</u> |
| <u>Item 2.</u> | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>53</u> |
| <u>Item 3.</u> | <u>Defaults upon Senior Securities</u> | <u>53</u> |
| <u>Item 4.</u> | <u>Mine Safety Disclosures</u> | <u>53</u> |
| <u>Item 5.</u> | <u>Other Information</u> | <u>53</u> |
| <u>Item 6.</u> | <u>Exhibits</u> | <u>53</u> |
| | <u>Signatures</u> | <u>56</u> |

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

AGNC INVESTMENT CORP.

CONSOLIDATED BALANCE SHEETS

(in millions, except per share data)

| | June 30, 2017 (Unaudited) | December 31, 2016 |
|---|---------------------------------|----------------------|
| Assets: | | |
| Agency securities, at fair value (including pledged securities of \$41,263 and \$43,943, respectively) | \$ 45,226 | \$ 45,393 |
| Agency securities transferred to consolidated variable interest entities, at fair value (pledged securities) | 737 | 818 |
| Credit risk transfer securities, at fair value | 572 | 164 |
| Non-Agency securities, at fair value (including pledged securities of \$0 and \$90, respectively) | 31 | 124 |
| U.S. Treasury securities, at fair value (including pledged securities of \$0 and \$173, respectively) | — | 182 |
| REIT equity securities, at fair value | 4 | — |
| Cash and cash equivalents | 1,122 | 1,208 |
| Restricted cash and cash equivalents | 261 | 74 |
| Derivative assets, at fair value | 214 | 355 |
| Receivable for securities sold (including pledged securities of \$348 and \$21, respectively) | 353 | 21 |
| Receivable under reverse repurchase agreements | 7,489 | 7,716 |
| Goodwill and other intangible assets, net | 553 | 554 |
| Other assets | 149 | 271 |
| Total assets | \$ 56,711 | \$ 56,880 |
| Liabilities: | | |
| Repurchase agreements | \$ 39,058 | \$ 37,858 |
| Federal Home Loan Bank advances | — | 3,037 |
| Debt of consolidated variable interest entities, at fair value | 405 | 460 |
| Payable for securities purchased | 2,005 | — |
| Derivative liabilities, at fair value | 73 | 256 |
| Dividends payable | 71 | 66 |
| Obligation to return securities borrowed under reverse repurchase agreements, at fair value | 7,221 | 7,636 |
| Accounts payable and other liabilities | 133 | 211 |
| Total liabilities | 48,966 | 49,524 |
| Stockholders' equity: | | |
| Preferred stock - \$0.01 par value; 10.0 shares authorized: | | |
| Redeemable Preferred Stock; \$0.01 par value; 6.9 shares issued and outstanding (aggregate liquidation preference of \$348) | 336 | 336 |
| Common stock - \$0.01 par value; 600 shares authorized; | | |
| 355.6 and 331.0 shares issued and outstanding, respectively | 4 | 3 |
| Additional paid-in capital | 10,435 | 9,932 |
| Retained deficit | (2,800) | (2,518) |
| Accumulated other comprehensive loss | (230) | (397) |

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| | | |
|--|-----------|-----------|
| Total stockholders' equity | 7,745 | 7,356 |
| Total liabilities and stockholders' equity | \$ 56,711 | \$ 56,880 |
| See accompanying notes to consolidated financial statements. | | |

2

AGNC INVESTMENT CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(in millions, except per share data)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|----------|------------------------------|----------|
| | 2017 | 2016 | 2017 | 2016 |
| Interest income: | | | | |
| Interest income | \$293 | \$318 | \$589 | \$613 |
| Interest expense | 112 | 101 | 210 | 200 |
| Net interest income | 181 | 217 | 379 | 413 |
| Other gain (loss), net: | | | | |
| Gain (loss) on sale of investment securities, net | 15 | 55 | (69) | 53 |
| Unrealized gain on investment securities measured at fair value through net income, net | 9 | — | 25 | 11 |
| Loss on derivative instruments and other securities, net | (169) | (367) | (209) | (1,311) |
| Management fee income | 4 | — | 7 | — |
| Total other loss, net: | (141) | (312) | (246) | (1,247) |
| Expenses: | | | | |
| Management fee expense | — | 25 | — | 52 |
| Compensation and benefits | 10 | — | 20 | — |
| Other operating expenses | 6 | 15 | 13 | 21 |
| Total operating expenses | 16 | 40 | 33 | 73 |
| Net income (loss) | 24 | (135) | 100 | (907) |
| Dividend on preferred stock | 7 | 7 | 14 | 14 |
| Net income (loss) available (attributable) to common stockholders | \$17 | \$(142) | \$86 | \$(921) |
| Net income (loss) | \$24 | \$(135) | \$100 | \$(907) |
| Other comprehensive income: | | | | |
| Unrealized gain on available-for-sale securities, net | 121 | 370 | 167 | 1,135 |
| Unrealized gain on derivative instruments, net | — | 12 | — | 31 |
| Other comprehensive income | 121 | 382 | 167 | 1,166 |
| Comprehensive income | 145 | 247 | 267 | 259 |
| Dividend on preferred stock | 7 | 7 | 14 | 14 |
| Comprehensive income available to common stockholders | \$138 | \$240 | \$253 | \$245 |
| Weighted average number of common shares outstanding - basic | 346.4 | 331.0 | 338.8 | 332.7 |
| Weighted average number of common shares outstanding - diluted | 346.5 | 331.0 | 338.9 | 332.7 |
| Net income (loss) per common share - basic and diluted | \$0.05 | \$(0.43) | \$0.25 | \$(2.77) |
| Dividends declared per common share | \$0.54 | \$0.60 | \$1.08 | \$1.20 |
| See accompanying notes to consolidated financial statements. | | | | |

AGNC INVESTMENT CORP.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)
(in millions)

| | Preferred Stock Shares | Preferred Amount | Common Stock Shares | Common Amount | Additional Paid-in Capital | Retained Deficit | Accumulated Other Comprehensive Income (Loss) | Total |
|---|------------------------------|---------------------|---------------------------|------------------|----------------------------------|---------------------|---|----------|
| Balance, December 31, 2015 | 6.9 | \$ 336 | 337.5 | \$ 3 | \$ 10,048 | \$(2,350) | \$ (66) | \$ 7,971 |
| Net loss | — | — | — | — | — | (907) | — | (907) |
| Other comprehensive income: | | | | | | | | |
| Unrealized gain on available-for-sale securities, net | — | — | — | — | — | — | 1,135 | 1,135 |
| Unrealized gain on derivative instruments, net | — | — | — | — | — | — | 31 | 31 |
| Repurchase of common stock | — | — | (6.5) | — | (116) | — | — | (116) |
| Preferred dividends declared | — | — | — | — | — | (14) | — | (14) |
| Common dividends declared | — | — | — | — | — | (398) | — | (398) |
| Balance, June 30, 2016 | 6.9 | \$ 336 | 331.0 | \$ 3 | \$ 9,932 | \$(3,669) | \$ 1,100 | \$ 7,702 |
| Balance, December 31, 2016 | 6.9 | \$ 336 | 331.0 | \$ 3 | \$ 9,932 | \$(2,518) | \$ (397) | \$ 7,356 |
| Net income | — | — | — | — | — | 100 | — | 100 |
| Other comprehensive income: | | | | | | | | |
| Unrealized gain on available-for-sale securities, net | — | — | — | — | — | — | 167 | 167 |
| Stock-based compensation | — | — | — | — | 1 | — | — | 1 |
| Issuance of common stock | — | — | 24.5 | 1 | 502 | — | — | 503 |
| Preferred dividends declared | — | — | — | — | — | (14) | — | (14) |
| Common dividends declared | — | — | — | — | — | (368) | — | (368) |
| Balance, June 30, 2017 | 6.9 | \$ 336 | 355.6 | \$ 4 | \$ 10,435 | \$(2,800) | \$ (230) | \$ 7,745 |

Amounts may not foot due to rounding.

See accompanying notes to consolidated financial statements.

AGNC INVESTMENT CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in millions)

| | Six Months Ended June 30, | |
|--|------------------------------|-----------|
| | 2017 | 2016 |
| Operating activities: | | |
| Net income (loss) | \$100 | \$(907) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Amortization of premiums and discounts on mortgage-backed securities, net | 185 | 284 |
| Amortization of accumulated other comprehensive loss on interest rate swaps de-designated as qualifying hedges | — | 31 |
| Amortization of intangible assets | 2 | — |
| Stock based compensation | 1 | — |
| (Gain) loss on sale of investment securities, net | 69 | (53) |
| Unrealized gain on investment securities measured at fair value through net income, net | (25) | (11) |
| Loss on derivative instruments and other securities, net | 209 | 1,311 |
| Decrease in other assets | 121 | 24 |
| Increase in accounts payable and other accrued liabilities | 17 | 9 |
| Net cash provided by operating activities | 679 | 688 |
| Investing activities: | | |
| Purchases of Agency mortgage-backed securities | (9,065) | (13,453) |
| Purchases of credit risk transfer and non-Agency securities | (611) | — |
| Proceeds from sale of Agency mortgage-backed securities | 7,636 | 11,076 |
| Proceeds from sale of credit risk transfer and non-Agency securities | 318 | — |
| Principal collections on Agency mortgage-backed securities | 3,262 | 3,681 |
| Principal collections on credit risk transfer and non-Agency securities | 4 | 9 |
| Purchases of U.S. Treasury securities | (7,320) | (1,819) |
| Proceeds from sale of U.S. Treasury securities | 6,873 | 2,947 |
| Net proceeds from (payments on) reverse repurchase agreements | 227 | (1,269) |
| Net payments on derivative instruments | (464) | (609) |
| Purchases of REIT equity securities | (4) | — |
| Proceeds from sale of REIT equity securities | — | 4 |
| Increase in restricted cash and cash equivalents | — | (141) |
| Other investing cash flows, net | 102 | — |
| Net cash provided by investing activities | 958 | 426 |
| Financing activities: | | |
| Proceeds from repurchase arrangements | 164,939 | 134,605 |
| Payments on repurchase agreements | (163,696) | (134,389) |
| Proceeds from Federal Home Loan Bank advances | — | 2,098 |
| Payments on Federal Home Loan Bank advances | (3,037) | (2,814) |
| Payments on debt of consolidated variable interest entities | (55) | (64) |
| Net proceeds from common stock issuances | 503 | — |
| Payments for common stock repurchases | — | (116) |
| Cash dividends paid | (377) | (413) |
| Net cash used in financing activities | (1,723) | (1,093) |
| Net change in cash and cash equivalents | (86) | 21 |
| Cash and cash equivalents at beginning of period | 1,208 | 1,110 |

| | | |
|--|---------|---------|
| Cash and cash equivalents at end of period | \$1,122 | \$1,131 |
| See accompanying notes to consolidated financial statements. | | |

AGNC INVESTMENT CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Unaudited Interim Consolidated Financial Statements

The unaudited interim consolidated financial statements of AGNC Investment Corp. (referred throughout this report as the "Company", "we", "us" and "our") are prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Our unaudited interim consolidated financial statements include the accounts of all of our wholly-owned subsidiaries and variable interest entities for which we are the primary beneficiary. Significant intercompany accounts and transactions have been eliminated. In the opinion of management, all adjustments, consisting solely of normal recurring accruals, necessary for the fair presentation of financial statements for the interim period have been included. The current period's results of operations are not necessarily indicative of results that ultimately may be achieved for the year.

Note 2. Organization

We were organized in Delaware on January 7, 2008, and commenced operations on May 20, 2008 following the completion of our initial public offering ("IPO"). Our common stock is traded on The NASDAQ Global Select Market under the symbol "AGNC."

We operate so as to qualify to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). As a REIT, we are required to distribute annually 90% of our taxable net income. As long as we continue to qualify as a REIT, we will generally not be subject to U.S. federal or state corporate taxes on our taxable net income to the extent that we distribute our annual taxable net income to our stockholders on a timely basis. It is our intention to distribute 100% of our taxable net income, after application of available tax attributes, within the limits prescribed by the Internal Revenue Code, which may extend into the subsequent tax year.

We earn income primarily from investing in residential mortgage-backed securities for which the principal and interest payments are guaranteed by a U.S. Government-sponsored enterprise or a U.S. Government agency ("Agency RMBS") on a leveraged basis. We may also invest in other types of mortgage and mortgage-related securities, such as credit risk transfer ("CRT") securities and non-Agency residential and commercial mortgage-backed securities ("non-Agency RMBS" and "CMBS," respectively), where repayment of principal and interest is not guaranteed by a U.S. Government-sponsored enterprise or U.S. Government agency (see Note 3 for further details).

Our principal objective is to provide our stockholders with attractive risk-adjusted returns through a combination of monthly dividends and net asset value (also referred to as "net book value" or "NAV") accretion. We generate income from the interest earned on our investment assets, net of associated borrowing and hedging activities, and net realized gains and losses on our investments and hedging activities. We fund our investments primarily through borrowings structured as repurchase agreements.

Prior to July 1, 2016, we were externally managed by AGNC Management, LLC (our "Manager"). On July 1, 2016, we completed the acquisition of all of the outstanding membership interests of AGNC Mortgage Management, LLC ("AMM"), the parent company of our Manager, from American Capital Asset Management, LLC ("ACAM"), a wholly owned portfolio company of American Capital, Ltd. ("ACAS"). AMM is also the parent company of MTGE Management, LLC, the external manager of MTGE Investment Corp. ("MTGE") (NASDAQ: MTGE). Following the closing of the acquisition of AMM, we became internally managed and are no longer affiliated with ACAS.

Note 3. Summary of Significant Accounting Policies

Investment Securities

The Agency RMBS in which we invest consist of residential mortgage pass-through securities and collateralized mortgage obligations ("CMOs") guaranteed by the Federal National Mortgage Association ("Fannie Mae"), Federal Home Loan Mortgage Corporation ("Freddie Mac") or the Government National Mortgage Association ("Ginnie Mae") (collectively referred to as "GSEs").

CRT securities are risk sharing instruments issued by the GSEs, and similarly structured transactions issued by third party market participants, that transfer a portion of the risk associated with credit losses within pools of conventional residential mortgage loans from the GSEs and/or third parties to private investors. Unlike Agency RMBS, full repayment of the original principal balance of CRT securities is not guaranteed by a GSE or other government agency; rather, "credit risk transfer" is achieved by writing down the outstanding principal balance of the CRT securities if credit losses on a related pool of loans exceed certain thresholds. By reducing the amount that they are obligated to repay to holders of CRT securities, the GSEs and/or other third parties are able to offset credit losses on the related loans.

Non-Agency RMBS and CMBS (together, "Non-Agency MBS") are backed by residential and commercial mortgage loans, respectively, packaged and securitized by a private institution, such as a commercial bank. Non-Agency MBS typically benefit from credit enhancements derived from structural elements, such as subordination, overcollateralization or insurance, but nonetheless carry a higher level of credit exposure than Agency RMBS. Mortgage-related securities may also include investments in the common stock of other publicly traded mortgage REITs, including MTGE, which invest in Agency and non-Agency securities and/or other real estate related assets. As of June 30, 2017, our investments in REIT equity securities consisted of MTGE common stock.

Accounting Standards Codification ("ASC") Topic 320, Investments—Debt and Equity Securities, requires that at the time of purchase, we designate a security as held-to-maturity, available-for-sale or trading, depending on our ability and intent to hold such security to maturity. Alternatively, we may elect the fair value option of accounting for such securities pursuant to ASC Topic 825, Financial Instruments. All of our securities are reported at fair value as they have either been designated as available-for-sale or trading or we have elected the fair value option of accounting. Unrealized gains and losses on securities classified as available-for-sale are reported in accumulated other comprehensive income (loss) ("OCI"). Unrealized gains and losses on securities classified as trading or for which we elected the fair value option are reflected in net income through other gain (loss) during the period in which they occur. Upon the sale of a security designated as available-for-sale, we determine the cost of the security and the amount of unrealized gains or losses to reclassify out of accumulated OCI into earnings based on the specific identification method.

Prior to fiscal year 2017, we primarily designated our investment securities as available-for-sale. During fiscal year 2017, we elected the fair value option of accounting for all investment securities acquired after fiscal year 2016. In our view, this election simplifies the accounting for investment securities and more appropriately reflects the results of our operations for a particular reporting period, as the fair value changes for these assets are presented in a manner consistent with the presentation and timing of the fair value changes of our hedging instruments. We are not permitted to change the designation of securities acquired prior to January 1, 2017, accordingly, such securities will continue to be classified as available-for-sale securities until such time as we receive full repayment of principal or we dispose of the security.

We estimate the fair value of our investment securities based on a market approach using "Level 2" inputs from third-party pricing services and non-binding dealer quotes derived from common market pricing methods. Such methods incorporate, but are not limited to, reported trades and executable bid and asked prices for similar securities, benchmark interest rate curves, such as the spread to the U.S. Treasury rate and interest rate swap curves, convexity, duration and the underlying characteristics of the particular security, including coupon, periodic and life caps, rate reset period, issuer, additional credit support and expected life of the security. Refer to Note 8 for further discussion of fair value measurements.

We evaluate our investments designated as available-for-sale for other-than-temporary impairment ("OTTI") on at least a quarterly basis. The determination of whether a security is other-than-temporarily impaired may involve judgments and assumptions based on subjective and objective factors. When a security is impaired, an OTTI is considered to have occurred if any one of the following three conditions exists as of the financial reporting date: (i) we intend to sell the security (that is, a decision has been made to sell the security), (ii) it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis or (iii) we do not expect to recover the security's amortized cost basis, even if we do not intend to sell the security and it is not more likely than not that we will be required to sell the security. A general allowance for unidentified impairments in a portfolio of securities is not

permitted.

Interest Income

Interest income is accrued based on the outstanding principal amount of the investment securities and their contractual terms. Premiums or discounts associated with the purchase of Agency RMBS and non-Agency MBS of high credit quality are amortized or accreted into interest income, respectively, over the projected lives of the securities, including contractual payments and estimated prepayments using the effective interest method in accordance with ASC Subtopic 310-20, Receivables—Nonrefundable Fees and Other Costs.

7

We estimate long-term prepayment speeds of our mortgage securities using a third-party service and market data. Actual and anticipated prepayment experience is reviewed quarterly and effective yields are recalculated when differences arise between (i) our previously estimated future prepayments and (ii) the actual prepayments to date plus our currently estimated future prepayments. If the actual and estimated future prepayment experience differs from our prior estimate of prepayments, we are required to record an adjustment in the current period to the amortization or accretion of premiums and discounts for the cumulative difference in the effective yield through the reporting date.

At the time we purchase CRT securities and non-Agency MBS that are not of high credit quality, we determine an effective yield based on our estimate of the timing and amount of future cash flows and our cost basis. Our initial cash flow estimates for these investments are based on our observations of current information and events and include assumptions related to interest rates, prepayment rates and the impact of default and severity rates on the timing and amount of credit losses. On at least a quarterly basis, we review the estimated cash flows and make appropriate adjustments, based on inputs and analysis received from external sources, internal models, and our judgment regarding such inputs and other factors. Any resulting changes in effective yield are recognized prospectively based on the current amortized cost of the investment as adjusted for credit impairment, if any.

Repurchase Agreements

We finance the acquisition of securities for our investment portfolio primarily through repurchase transactions under master repurchase agreements. Pursuant to ASC Topic 860, Transfers and Servicing ("ASC 860"), we account for repurchase transactions as collateralized financing transactions, which are carried at their contractual amounts (cost), plus accrued interest, as specified in the respective transactions. Our repurchase agreements typically have maturities of less than one year, but may extend up to five years or more. Interest rates under our repurchase agreements generally correspond to one, three or six month LIBOR plus or minus a fixed spread. The fair value of our repurchase agreements is assumed to equal cost as the interest rates are considered to be at market.

Reverse Repurchase Agreements and Obligation to Return Securities Borrowed under Reverse Repurchase Agreements

We borrow securities to cover short sales of U.S. Treasury securities through reverse repurchase transactions under our master repurchase agreements (see Derivatives Instruments below). We account for these as securities borrowing transactions and recognize an obligation to return the borrowed securities at fair value on the balance sheet based on the value of the underlying borrowed securities as of the reporting date. Our reverse repurchase agreements generally mature daily. The fair value of our reverse repurchase agreements is assumed to equal cost as the interest rates are generally reset daily.

Derivative Instruments

We use a variety of derivative instruments to hedge a portion of our exposure to market risks, including interest rate, prepayment, extension and liquidity risks. The objective of our risk management strategy is to reduce fluctuations in net book value over a range of interest rate scenarios. In particular, we attempt to mitigate the risk of the cost of our variable rate liabilities increasing during a period of rising interest rates. The principal instruments that we use are interest rate swaps and options to enter into interest rate swaps ("swaptions"). We also utilize U.S. Treasury securities and U.S. Treasury futures contracts, primarily through short sales, and forward contracts for the purchase or sale of Agency RMBS in the "to-be-announced" market ("TBA securities"). We may also purchase or write put or call options on TBA securities and utilize other types of derivative instruments to hedge a portion of our risk.

We enter into TBA contracts as a means of investing in and financing Agency securities (thereby increasing our "at risk" leverage) or as a means of disposing of or reducing our exposure to Agency securities (thereby reducing our "at risk" leverage). Under TBA contracts, we agree to purchase or sell, for future delivery, Agency securities with certain principal and interest terms and certain types of collateral, but the particular Agency securities to be delivered are not identified until shortly before the TBA settlement date. We may also choose, prior to settlement, to move the settlement of these securities out to a later date by entering into an offsetting position (referred to as a "pair off"), net settling the paired off positions for cash, and simultaneously purchasing or selling a similar TBA contract for a later settlement date. This transaction is commonly referred to as a "dollar roll." The Agency securities purchased or sold for a forward settlement date are typically priced at a discount to Agency securities for settlement in the current

month. This difference (or discount) is referred to as the "price drop." The price drop is the economic equivalent of net interest carry income on the underlying Agency securities over the roll period (interest income less implied financing cost) and is commonly referred to as "dollar roll income/loss." Consequently, forward purchases of Agency securities and dollar roll transactions represent a form of off-balance sheet financing.

We account for derivative instruments in accordance with ASC Topic 815, Derivatives and Hedging ("ASC 815"). ASC 815 requires an entity to recognize all derivatives as either assets or liabilities in our accompanying consolidated balance sheets and to measure those instruments at fair value.

Our derivative agreements generally contain provisions that allow for netting or setting off derivative assets and liabilities with the counterparty; however, we report related assets and liabilities on a gross basis in our consolidated balance sheets. Derivative instruments in a gain position are reported as derivative assets at fair value and derivative instruments in a loss position are reported as derivative liabilities at fair value in our consolidated balance sheets. Changes in fair value of derivative instruments and periodic settlements related to our derivative instruments are recorded in gain (loss) on derivative instruments and other securities, net in our consolidated statements of comprehensive income. Cash receipts and payments related to derivative instruments are classified in our consolidated statements of cash flows according to the underlying nature or purpose of the derivative transaction, generally in the investing section.

The use of derivative instruments creates exposure to credit risk relating to potential losses that could be recognized if the counterparties to these instruments fail to perform their obligations under the contracts. Our derivative agreements require that we post or receive collateral on such agreements to mitigate such risk. We also attempt to minimize our risk of loss by limiting our counterparties to major financial institutions with acceptable credit ratings, monitoring positions with individual counterparties and adjusting posted collateral as required.

Discontinuation of hedge accounting for interest rate swap agreements

Prior to fiscal year 2011, we entered into interest rate swap agreements typically with the intention of qualifying for hedge accounting under ASC 815. However, during fiscal year 2011, we elected to discontinue hedge accounting for our interest rate swaps. Upon discontinuation of hedge accounting, the net deferred loss related to our de-designated interest rate swaps remained in accumulated OCI and was reclassified from accumulated OCI into interest expense on a straight-line basis over the remaining term of each interest rate swap through December 2016.

Interest rate swap agreements

We use interest rate swaps to hedge the variable cash flows associated with our borrowings made under repurchase agreement facilities. Under our interest rate swap agreements, we typically pay a fixed rate and receive a floating rate based on one, three or six-month LIBOR ("payer swaps") with terms up to 20 years. The floating rate we receive under our swap agreements has the effect of offsetting the repricing characteristics of our repurchase agreements and cash flows on such liabilities. Our swap agreements are privately negotiated in the over-the-counter ("OTC") market. Swap agreements entered into after May 2013 are centrally cleared through the Chicago Mercantile Exchange ("CME"), a registered commodities exchange.

We estimate the fair value of our centrally cleared interest rate swaps using the daily settlement price determined by the respective exchange. Centrally cleared swaps are valued by the exchange using a pricing model that references the underlying rates including the overnight index swap rate and LIBOR forward rate to produce the daily settlement price.

Our centrally cleared swaps require that we post an "initial margin" to our counterparties for an amount determined by the CME, which is generally intended to be set at a level sufficient to protect the CME from the maximum estimated single-day price movement in that market participant's contracts. We exchange cash "variation margin" with our counterparties on our centrally cleared swaps based upon daily changes in the fair value as measured by the CME. Beginning in 2017, as a result of a CME amendment to its rule book governing its central clearing activities, the daily exchange of variation margin associated with a CME centrally cleared derivative instrument is characterized as the daily settlement of the derivative instrument itself, as opposed to a pledge of collateral. Accordingly, beginning in 2017, we account for the daily receipt or payment of variation margin associated with our centrally cleared interest rate swaps as a direct reduction to the carrying value of the interest rate swap asset or liability. Thus, the carrying amount of centrally cleared interest rate swaps reflected in our consolidated balance sheets is equal to the unsettled fair value of such instruments.

We estimate the fair value of our non-centrally cleared swaps using a combination of inputs from counterparty and third-party pricing models to estimate the net present value of the future cash flows using the forward interest rate yield curve in effect as of the end of the measurement period. We also incorporate both our own and our counterparties' nonperformance risk in estimating the fair value of our interest rate swaps. In considering the effect of nonperformance risk, we consider the impact of netting and credit enhancements, such as collateral postings and guarantees, and have concluded that our own and our counterparty risk is not significant to the overall valuation of

these agreements.

Interest rate swaptions

We purchase interest rate swaptions generally to help mitigate the potential impact of larger, more rapid changes in interest rates on the performance of our investment portfolio. Interest rate swaptions provide us the option to enter into an interest rate swap agreement for a predetermined notional amount, stated term and pay and receive interest rates in the future. Our swaption agreements typically provide us the option to enter into a pay-fixed rate interest rate swap, which we refer as "payer swaptions." We may also enter into swaption agreements that provide us the option to enter into a receive-fixed interest rate swap, which we

9

refer to as "receiver swaptions." The premium paid for interest rate swaptions is reported as an asset in our consolidated balance sheets. The premium is valued at an amount equal to the fair value of the swaption that would have the effect of closing the position adjusted for nonperformance risk, if any. The difference between the premium and the fair value of the swaption is reported in gain (loss) on derivative instruments and other securities, net in our consolidated statements of comprehensive income. If a swaption expires unexercised, the realized loss on the swaption would be equal to the premium paid. If we sell or exercise a swaption, the realized gain or loss on the swaption would be equal to the difference between the cash or the fair value of the underlying interest rate swap received and the premium paid.

Our interest rate swaption agreements are privately negotiated in the OTC market and are not subject to central clearing. We estimate the fair value of interest rate swaptions using a combination of inputs from counterparty and third-party pricing models based on the fair value of the future interest rate swap that we have the option to enter into as well as the remaining length of time that we have to exercise the option, adjusted for non-performance risk, if any.

TBA securities

A TBA security is a forward contract for the purchase ("long position") or sale ("short position") of Agency RMBS at a predetermined price, face amount, issuer, coupon and stated maturity on an agreed-upon future date. The specific Agency RMBS delivered into the contract upon the settlement date, published each month by the Securities Industry and Financial Markets Association, are not known at the time of the transaction. We enter into TBA contracts primarily as a means of acquiring or disposing of Agency securities and utilize TBA dollar roll transactions to finance Agency RMBS purchases.

We account for TBA contracts as derivative instruments since either the TBA contracts do not settle in the shortest period of time possible or we cannot assert that it is probable at inception and throughout the term of the TBA contract that we will take physical delivery of the Agency security upon settlement of the contract. We account for TBA dollar roll transactions as a series of derivative transactions. Gains, losses and dollar roll income associated with our TBA contracts and dollar roll transactions are recognized in our consolidated statements of comprehensive income in gain (loss) on derivative instruments and other securities, net. We estimate the fair value of TBA securities based on similar methods used to value our Agency RMBS securities.

U.S. Treasury securities

We purchase and sell short U.S. Treasury securities and U.S. Treasury futures contracts to help mitigate the potential impact of changes in interest rates on the performance of our portfolio. We borrow securities to cover short sales of U.S. Treasury securities under reverse repurchase agreements. We account for these as securities borrowing transactions and recognize an obligation to return the borrowed securities at fair value on our accompanying consolidated balance sheets based on the value of the underlying borrowed securities as of the reporting date. Gains and losses associated with purchases and short sales of U.S. Treasury securities and U.S. Treasury futures contracts are recognized in gain (loss) on derivative instruments and other securities, net in our consolidated statements of comprehensive income.

Loss Contingencies

We evaluate the existence of any pending or threatened litigation or other potential claims against the Company in accordance with ASC Topic 450, Contingencies, which requires that we assess the likelihood and range of potential outcomes of any such matters. We are the defendant in two stockholder derivative lawsuits alleging that certain of our current and former directors and officers breached fiduciary duties and wasted corporate assets in connection with past renewals of the management agreement with our former external Manager and the internalization of our management, which occurred on July 1, 2016. Although the outcomes of these cases cannot be predicted with certainty, we do not believe that these cases have merit or will result in a material liability and, as of June 30, 2017, we did not accrue a loss contingency related to these matters.

Recent Accounting Pronouncements

We consider the applicability and impact of all Accounting Standards Updates ("ASUs") issued by the Financial Accounting Standards Board. ASUs not listed below were determined to be either not applicable, are not expected to have a significant impact on our consolidated financial statements when adopted, or did not have a significant impact on our consolidated financial statements upon adoption.

ASU 2014-09, Revenue from Contracts with Customers (Topic 606): ASU 2014-09 is a comprehensive revenue recognition standard that supersedes virtually all existing revenue guidance under U.S. GAAP. The standard's core principle is that an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Revenue recognition with respect to financial instruments is not within the scope of ASU 2014-09 and our review of each of our revenue streams indicates that it will not have a significant impact on our consolidated financial statements. ASU 2014-09 is effective on January 1, 2018.

ASU 2016-13, Financial Instruments - Credit Losses (Topic 606): ASU 2016-13 changes the impairment model for most financial assets and certain other instruments. Allowances for credit losses on available-for-sale debt securities will be recognized, rather than direct reductions in the amortized cost of the investments. The new model also requires the estimation of lifetime expected credit losses and corresponding recognition of allowance for losses on trade and other receivables, held-to-maturity debt securities, loans, and other instruments held at amortized cost. The ASU requires certain recurring disclosures and is effective for annual periods, and interim periods within those annual periods, beginning on or after December 15, 2019, with early adoption permitted for annual periods, and interim periods within those annual periods, beginning on or after December 15, 2018. ASU 2016-13 is not expected to have a significant impact on our consolidated financial statements.

ASU 2016-18, Statement of Cash Flows (Topic 230) - Restricted Cash: ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 will be effective on January 1, 2018 and is not expected to have a significant impact on our consolidated financial statements.

Note 4. Investment Securities

As of June 30, 2017 and December 31, 2016, our investment portfolio consisted of \$46.6 billion and \$46.5 billion of investment securities, at fair value, respectively, and \$17.3 billion and \$11.2 billion of TBA securities, at fair value, respectively. Our TBA position is reported at its net carrying value of \$(12) million and \$(147) million as of June 30, 2017 and December 31, 2016, respectively, in derivative assets/(liabilities) on our accompanying consolidated balance sheets. The net carrying value of our TBA position represents the difference between the fair value of the underlying Agency security in the TBA contract and the cost basis or the forward price to be paid or received for the underlying Agency security.

As of June 30, 2017 and December 31, 2016, our investment securities had a net unamortized premium balance of \$2.2 billion and \$2.1 billion, respectively, including interest and principal-only securities.

The following tables summarize our investment securities as of June 30, 2017 and December 31, 2016, excluding TBA securities, (dollars in millions). Note 6 contains details of our TBA securities as of June 30, 2017 and December 31, 2016.

| Investment Securities | June 30, 2017 | | December 31, 2016 | |
|---|----------------|------------|-------------------|------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Agency RMBS: | | | | |
| Fixed rate | \$44,883 | \$44,643 | \$45,145 | \$44,736 |
| Adjustable rate | 327 | 334 | 371 | 379 |
| CMO | 714 | 722 | 796 | 801 |
| Interest-only and principal-only strips | 240 | 264 | 268 | 295 |
| Total Agency RMBS | 46,164 | 45,963 | 46,580 | 46,211 |
| Non-Agency RMBS | 8 | 8 | 102 | 101 |
| CMBS | 23 | 23 | 23 | 23 |
| CRT securities | 549 | 572 | 161 | 164 |
| Total investment securities | \$46,744 | \$46,566 | \$46,866 | \$46,499 |

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| Investment Securities | June 30, 2017 Agency RMBS | | | Non-Agency | | | Total |
|--|------------------------------|-------------|------------|------------|-------|-------|----------|
| | Fannie Mae | Freddie Mac | Ginnie Mae | RMBS | CMBS | CRT | |
| Available-for-sale securities: | | | | | | | |
| Par value | \$26,924 | \$8,610 | \$39 | \$8 | \$— | \$— | \$35,581 |
| Unamortized discount | (27) | (3) | — | — | — | — | (30) |
| Unamortized premium | 1,242 | 467 | — | — | — | — | 1,709 |
| Amortized cost | 28,139 | 9,074 | 39 | 8 | — | — | 37,260 |
| Gross unrealized gains | 164 | 45 | 1 | — | — | — | 210 |
| Gross unrealized losses | (305) | (135) | — | — | — | — | (440) |
| Total available-for-sale securities, at fair value | 27,998 | 8,984 | 40 | 8 | — | — | 37,030 |
| Securities remeasured at fair value through earnings: | | | | | | | |
| Par value | 7,648 | 811 | — | — | 24 | 529 | 9,012 |
| Unamortized discount | (38) | — | — | — | (1) | — | (39) |
| Unamortized premium | 432 | 59 | — | — | — | 20 | 511 |
| Amortized cost | 8,042 | 870 | — | — | 23 | 549 | 9,484 |
| Gross unrealized gains | 42 | 3 | — | — | — | 23 | 68 |
| Gross unrealized losses | (13) | (3) | — | — | — | — | (16) |
| Total securities remeasured at fair value through earnings | 8,071 | 870 | — | — | 23 | 572 | 9,536 |
| Total securities, at fair value | \$36,069 | \$9,854 | \$40 | \$8 | \$23 | \$572 | \$46,566 |
| Weighted average coupon as of June 30, 2017 | 3.68 | % 3.70 | % 2.76% | 2.50% | 6.55% | 5.14 | % 3.70 % |
| Weighted average yield as of June 30, 2017 ¹ | 2.83 | % 2.74 | % 2.00% | 3.00% | 7.53% | 5.31 | % 2.84 % |

¹ Incorporates a weighted average future constant prepayment rate assumption of 9% based on forward rates as of June 30, 2017.

| Investment Securities | December 31, 2016 Agency RMBS | | | Non-Agency | | | Total |
|---|----------------------------------|-------------|------------|------------|------|-----|----------|
| | Fannie Mae | Freddie Mac | Ginnie Mae | RMBS | CMBS | CRT | |
| Available-for-sale securities: | | | | | | | |
| Par value | \$34,244 | \$10,008 | \$44 | \$101 | \$— | \$— | \$44,397 |
| Unamortized discount | (43) | (3) | — | — | — | — | (46) |
| Unamortized premium | 1,518 | 544 | — | 1 | — | — | 2,063 |
| Amortized cost | 35,719 | 10,549 | 44 | 102 | — | — | 46,414 |
| Gross unrealized gains | 176 | 48 | 1 | — | — | — | 225 |
| Gross unrealized losses | (442) | (179) | — | (1) | — | — | (622) |
| Total available-for-sale securities, at fair value | 35,453 | 10,418 | 45 | 101 | — | — | 46,017 |
| Securities remeasured at fair value through earnings: | | | | | | | |
| Par value | 171 | — | — | — | 24 | 157 | 352 |
| Unamortized discount | (35) | — | — | — | (1) | — | (36) |
| Unamortized premium | 118 | 14 | — | — | — | 4 | 136 |
| Amortized cost | 254 | 14 | — | — | 23 | 161 | 452 |
| Gross unrealized gains | 28 | 3 | — | — | — | 3 | 34 |
| Gross unrealized losses | (3) | (1) | — | — | — | — | (4) |
| | 279 | 16 | — | — | 23 | 164 | 482 |

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Total securities remeasured at fair value through earnings

| | | | | | | | |
|---|----------|----------|--------|--------|--------|--------|----------|
| Total securities, at fair value | \$35,732 | \$10,434 | \$45 | \$101 | \$23 | \$164 | \$46,499 |
| Weighted average coupon as of December 31, 2016 | 3.59 | % 3.67 | % 2.75 | % 3.42 | % 6.55 | % 5.25 | % 3.61 |
| Weighted average yield as of December 31, 2016 ¹ | 2.77 | % 2.72 | % 2.00 | % 3.27 | % 7.54 | % 6.28 | % 2.77 |

¹ Incorporates a weighted average future constant prepayment rate assumption of 8% based on forward rates as of December 31, 2016.

As of June 30, 2017 and December 31, 2016, our investments in CRT and non-Agency securities had the following credit ratings:

| CRT and Non-Agency Security Credit Ratings ¹ | June 30, 2017 | | | December 31, 2016 | | |
|---|---------------|------|-------|-------------------|--------|-------|
| | CRT | RMBS | CMBS | CRT | RMBS | CMBS |
| AAA | \$— | \$ 8 | \$ — | \$— | \$ 99 | \$ — |
| BBB | — | — | 23 | — | — | 23 |
| BB | 78 | — | — | — | — | — |
| B | 490 | — | — | 164 | 2 | — |
| Not Rated | 4 | — | — | — | — | — |
| Total | \$572 | \$ 8 | \$ 23 | \$164 | \$ 101 | \$ 23 |

¹ Represents the lowest of Standard and Poor's ("S&P"), Moody's and Fitch credit ratings, stated in terms of the S&P equivalent rating as of each date.

Our CRT securities reference the performance of loans underlying Agency RMBS issued by Fannie Mae or Freddie Mac, which were subject to their underwriting standards. As of June 30, 2017, our CRT securities had floating rate coupons ranging from 3.8% to 7.6%, referenced to loans originated between 2012 and 2016 with weighted average coupons ranging from 3.6% to 4.2%. As of December 31, 2016, our CRT securities had floating rate coupons ranging from 4.6% to 7.1%, referenced to loans originated between 2015 and 2016 with weighted average coupons ranging from 4.0% to 4.2%.

The actual maturities of our investment securities are generally shorter than their stated contractual maturities. Actual maturities are affected by the contractual lives of the underlying mortgages, periodic contractual principal payments and principal prepayments. As of June 30, 2017 and December 31, 2016, the weighted average expected constant prepayment rate ("CPR") over the remaining life of our aggregate investment portfolio was 9% and 8%, respectively. Our estimates differ materially for different types of securities and thus individual holdings have a wide range of projected CPRs.

The following table summarizes our investments as of June 30, 2017 and December 31, 2016 according to their estimated weighted average life classification (dollars in millions):

| Estimated Weighted Average Life of Investment Securities | June 30, 2017 | | | | December 31, 2016 | | | |
|--|---------------|----------------|-------------------------|------------------------|-------------------|----------------|-------------------------|------------------------|
| | Fair Value | Amortized Cost | Weighted Average Coupon | Weighted Average Yield | Fair Value | Amortized Cost | Weighted Average Coupon | Weighted Average Yield |
| ≥ 1 year and ≤ 3 years | \$1,450 | \$ 1,427 | 3.96% | 2.61% | \$419 | \$ 416 | 4.33% | 2.27% |
| > 3 years and ≤ 5 years | 10,297 | 10,218 | 3.41% | 2.47% | 13,601 | 13,509 | 3.38% | 2.44% |
| > 5 years and ≤10 years | 33,326 | 33,634 | 3.77% | 2.92% | 30,513 | 30,979 | 3.74% | 2.89% |
| > 10 years | 1,493 | 1,465 | 3.89% | 3.91% | 1,966 | 1,962 | 3.17% | 3.27% |
| Total | \$46,566 | \$ 46,744 | 3.70% | 2.84% | \$46,499 | \$ 46,866 | 3.61% | 2.77% |

The following table presents the gross unrealized loss and fair values of securities classified as available-for-sale by length of time that such securities have been in a continuous unrealized loss position as of June 30, 2017 and December 31, 2016 (in millions):

| Securities Classified as Available-for-Sale | Unrealized Loss Position For | | | Total |
|---|------------------------------|-------------------|------------|------------|
| | Less than 12 Months | 12 Months or More | Unrealized | |
| | Unrealized | Estimated | Unrealized | Unrealized |

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| | Estimated Loss Fair Value | Fair Value | Estimated Loss Fair Value |
|-------------------|---------------------------------|------------------|---------------------------------|
| June 30, 2017 | \$21,606 \$ (374) | \$1,813 \$ (66) | \$23,419 \$ (440) |
| December 31, 2016 | \$28,397 \$ (554) | \$1,719 \$ (68) | \$30,116 \$ (622) |

We did not recognize any OTTI charges on our investment securities for the six months ended June 30, 2017 and 2016. As of the end of each respective reporting period, a decision had not been made to sell any of our securities in an unrealized loss position and we did not believe it was more likely than not that we would be required to sell such securities before recovery of their amortized cost basis. The unrealized losses on our securities were not due to credit losses given the GSE guarantees, but rather were due to changes in interest rates and prepayment expectations. However, as we continue to actively manage our portfolio, we may recognize additional realized losses on our investment securities upon selecting specific securities to sell.

Gains and Losses on Sale of Investment Securities

The following table is a summary of our net gain (loss) from the sale of investment securities for the three and six months ended June 30, 2017 and 2016 by investment classification of accounting (see Note 3) (in millions).

| Investment Securities | Three Months Ended June 30, 2017 | | | 2016 | | |
|---|--|----------------------|-----------|--|----------------------|-------------|
| | Available for Sale Securities ² | Option Securities | Total | Available for Sale Securities ² | Option Securities | Total |
| Investment securities sold, at cost | \$(586) | \$(2,401) | \$(2,987) | \$(7,508) | \$ | —\$(7,508) |
| Proceeds from investment securities sold ¹ | 582 | 2,420 | 3,002 | 7,563 | — | 7,563 |
| Net gain (loss) on sale of investment securities | \$(4) | \$19 | \$15 | \$55 | \$ | —\$55 |
| Gross gain on sale of investment securities | \$19 | \$3 | \$22 | \$55 | \$ | —\$55 |
| Gross loss on sale of investment securities | (7) | — | (7) | — | — | — |
| Net gain (loss) on sale of investment securities | \$12 | \$3 | \$15 | \$55 | \$ | —\$55 |
| Investment Securities | Six Months Ended June 30, 2017 | | | 2016 | | |
| | Available for Sale Securities ² | Option Securities | Total | Available for Sale Securities ² | Option Securities | Total |
| Investment securities sold, at cost | \$(5,735) | \$(2,620) | \$(8,355) | \$(11,023) | \$ | —\$(11,023) |
| Proceeds from investment securities sold ¹ | 5,647 | 2,639 | 8,286 | 11,076 | — | 11,076 |
| Net gain (loss) on sale of investment securities | \$(88) | \$19 | \$(69) | \$53 | \$ | —\$53 |
| Gross gain on sale of investment securities | \$23 | \$3 | \$26 | \$60 | \$ | —\$60 |
| Gross loss on sale of investment securities | (95) | — | (95) | (7) | — | (7) |
| Net gain (loss) on sale of investment securities | \$(72) | \$3 | \$(69) | \$53 | \$ | —\$53 |

¹ Proceeds include cash received during the period, plus receivable for investment securities sold during the period as of period end.

² See Note 10 for a summary of changes in accumulated OCI.

Securitized and Variable Interest Entities

As of June 30, 2017 and December 31, 2016, we held investments in CMO trusts, which are variable interest entities ("VIEs"). We have consolidated certain of these CMO trusts in our consolidated financial statements where we have determined we are the primary beneficiary of the trusts. All of our CMO securities are backed by fixed or adjustable-rate Agency RMBS. Fannie Mae or Freddie Mac guarantees the payment of interest and principal and acts as the trustee and administrator of their respective securitization trusts. Accordingly, we are not required to provide the beneficial interest holders of the CMO securities any financial or other support. Our maximum exposure to loss related to our involvement with CMO trusts is the fair value of the CMO securities and interest and principal-only securities held by us, less principal amounts guaranteed by Fannie Mae and Freddie Mac.

In connection with our consolidated CMO trusts, we recognized Agency securities with a total fair value and approximate unpaid principal balance of \$0.7 billion as of June 30, 2017 and \$0.8 billion as of December 31, 2016 and debt with a total fair value and approximate unpaid principal balance of \$0.4 billion as of June 30, 2017 and \$0.5 billion as of December 31, 2016 in our accompanying consolidated balance sheets. We re-measure our consolidated debt at fair value through earnings in gain (loss) on derivative instruments and other securities, net in our consolidated statements of comprehensive income. Our involvement with the consolidated trusts is limited to the Agency securities transferred by us upon the formation of the trusts and the CMO securities subsequently held by us. There are no arrangements that could require us to provide financial support to the trusts.

As of June 30, 2017 and December 31, 2016, the fair value of our CMO securities and interest and principal-only securities was \$1.0 billion and \$1.1 billion, respectively, excluding the consolidated CMO trusts discussed above, or \$1.3 billion and \$1.5 billion, respectively, including the net asset value of our consolidated CMO trusts. Our maximum exposure to loss related to our CMO securities and interest and principal-only securities, including our consolidated CMO trusts, was \$160 million and \$182 million as of June 30, 2017 and December 31, 2016, respectively.

Note 5. Repurchase Agreements and Other Secured Borrowings

We pledge certain of our securities as collateral under our borrowing agreements with financial institutions. Interest rates on our borrowings are generally based on LIBOR plus or minus a margin and amounts available to be borrowed are dependent

upon the fair value of the securities pledged as collateral, which fluctuates with changes in interest rates, type of security and liquidity conditions within the banking, mortgage finance and real estate industries. If the fair value of our pledged securities declines, lenders will typically require us to post additional collateral or pay down borrowings to re-establish agreed upon collateral requirements, referred to as "margin calls." Similarly, if the fair value of our pledged securities increases, lenders may release collateral back to us. As of June 30, 2017, we had met all margin call requirements. For additional information regarding our pledged assets, please refer to Note 7.

Repurchase Agreements

As of June 30, 2017 and December 31, 2016, we had \$39.1 billion and \$37.9 billion, respectively, of repurchase agreements outstanding. The terms and conditions of our repurchase agreements are typically negotiated on a transaction-by-transaction basis. Our repurchase agreements with original maturities greater than 90 days have floating interest rates based on an index plus or minus a fixed spread. Substantially all of our repurchase agreements were used to fund purchases of Agency securities ("Agency repo"). The remainder of our repurchase agreements were used to fund temporary holdings of U.S. Treasury securities ("U.S. Treasury repo").

The following table summarizes our borrowings under repurchase agreements by their remaining maturities as of June 30, 2017 and December 31, 2016 (dollars in millions):

| Remaining Maturity | June 30, 2017 | | | December 31, 2016 | | |
|----------------------|--------------------------|---|---|--------------------------|---|---|
| | Repurchase Agreements | Weighted Average Interest Rate | Weighted Average Days to Maturity | Repurchase Agreements | Weighted Average Interest Rate | Weighted Average Days to Maturity |
| Agency repo: | | | | | | |
| ≤ 1 month | \$18,710 | 1.22 % | 12 | \$17,481 | 0.90 % | 11 |
| > 1 to ≤ 3 months | 8,495 | 1.23 % | 55 | 10,011 | 0.93 % | 55 |
| > 3 to ≤ 6 months | 5,023 | 1.20 % | 134 | 2,030 | 1.02 % | 136 |
| > 6 to ≤ 9 months | 1,617 | 1.19 % | 203 | 1,270 | 0.98 % | 214 |
| > 9 to ≤ 12 months | 541 | 1.53 % | 296 | 1,566 | 1.08 % | 299 |
| > 12 to ≤ 24 months | 1,447 | 1.60 % | 562 | 1,203 | 1.28 % | 538 |
| > 24 to ≤ 36 months | 2,300 | 1.61 % | 927 | 1,300 | 1.36 % | 865 |
| > 36 to ≤ 48 months | 925 | 1.63 % | 1,286 | 2,200 | 1.32 % | 1,168 |
| > 48 to < 60 months | — | — | — | 625 | 1.38 % | 1,506 |
| Total Agency repo | 39,058 | 1.27 % | 154 | 37,686 | 0.98 % | 187 |
| U.S. Treasury repo: | | | | | | |
| > 1 day to ≤ 1 month | — | — | — | 172 | (0.30)% | 17 |
| Total | \$39,058 | 1.27 % | 154 | \$37,858 | 0.98 % | 186 |

As of June 30, 2017 and December 31, 2016, \$450 million and \$150 million, respectively, of our Agency repurchase agreements matured overnight and none of our repurchase agreements were due on demand.

Federal Home Loan Bank Advances

As of December 31, 2016, we had \$3.0 billion of outstanding secured Federal Home Loan Bank ("FHLB") advances, with a weighted average borrowing rate of 0.73%. Our FHLB advances matured in February 2017, coinciding with the termination of our wholly-owned captive insurance subsidiary's FHLB membership in February 2017 pursuant to the Federal Housing Finance Agency's ("FHFA") final rule on FHLB membership released in January 2016. As a result, we had no outstanding secured FHLB advances as of June 30, 2017.

Debt of Consolidated Variable Interest Entities

As of June 30, 2017 and December 31, 2016, debt of consolidated VIEs, at fair value, was \$405 million and \$460 million, respectively, and had a weighted average interest rate of LIBOR plus 37 and 36 basis points, respectively, and a principal balance of \$397 million and \$452 million, respectively. The actual maturities of our debt of consolidated VIEs are generally shorter than the stated contractual maturities. The actual maturities are affected by the contractual lives of the underlying Agency RMBS securitizing the debt of our consolidated VIEs and periodic principal prepayments of such underlying securities. The estimated weighted average life of the debt of our consolidated VIEs as of June 30, 2017 and December 31, 2016 was 5.5 years and 5.8 years, respectively.

Note 6. Derivative and Other Hedging Instruments

We hedge a portion of our interest rate risk by entering into interest rate swaps, interest rate swaptions and U.S. Treasury securities and U.S. Treasury futures contracts, primarily through short sales. We may also utilize TBA securities, options and other types of derivative instruments to hedge a portion of our risk. For additional information regarding our derivative instruments and our overall risk management strategy, please refer to the discussion of derivative and other hedging instruments in Note 3.

Derivative and Other Hedging Instrument Assets (Liabilities), at Fair Value

The table below summarizes fair value information about our derivative and other hedging instrument assets/(liabilities) as of June 30, 2017 and December 31, 2016 (in millions):

| Derivative and Other Hedging Instruments | Balance Sheet Location | June 30, 2017 | December 31, 2016 |
|---|---|---------------|-------------------|
| Interest rate swaps | Derivative assets, at fair value | \$73 | \$ 321 |
| Swaptions | Derivative assets, at fair value | 86 | 22 |
| TBA securities | Derivative assets, at fair value | 46 | 4 |
| U.S. Treasury futures - short | Derivative assets, at fair value | 9 | 8 |
| Total derivative assets, at fair value | | \$214 | \$ 355 |
| Interest rate swaps | Derivative liabilities, at fair value | \$(15) | \$(105) |
| TBA securities | Derivative liabilities, at fair value | (58) | (151) |
| Total derivative liabilities, at fair value | | \$(73) | \$(256) |
| U.S. Treasury securities - long | U.S. Treasury securities, at fair value | \$— | \$ 182 |
| U.S. Treasury securities - short | Obligation to return securities borrowed under reverse repurchase agreements, at fair value | (7,221) | (7,636) |
| Total U.S. Treasury securities, net at fair value | | \$(7,221) | \$(7,454) |

The following tables summarize certain characteristics of our derivative and other hedging instruments outstanding as of June 30, 2017 and December 31, 2016 (dollars in millions):

| Payer Interest Rate Swaps | June 30, 2017 | | | | December 31, 2016 | | | |
|---------------------------|------------------------------|-------------------------------------|----------------------|--------------------------|------------------------------|-------------------------------------|----------------------|--------------------------|
| | Notional Amount ¹ | Average Fixed Pay Rate ² | Average Receive Rate | Average Maturity (Years) | Notional Amount ¹ | Average Fixed Pay Rate ² | Average Receive Rate | Average Maturity (Years) |
| ≤ 3 years | \$20,675 | 1.23% | 1.20% | 1.5 | \$19,775 | 1.16% | 0.92% | 1.5 |
| > 3 to ≤ 5 years | 7,525 | 1.78% | 1.19% | 4.2 | 7,450 | 1.62% | 0.91% | 4.0 |
| > 5 to ≤ 7 years | 3,050 | 1.86% | 1.16% | 5.8 | 4,725 | 1.89% | 0.91% | 5.9 |
| > 7 to ≤ 10 years | 4,125 | 1.98% | 1.18% | 8.9 | 3,325 | 1.90% | 0.91% | 9.2 |
| > 10 years | 4,625 | 2.43% | 1.19% | 12.5 | 1,900 | 2.64% | 0.91% | 13.8 |

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| | | | | | | | | |
|-------|----------|-------|-------|-----|----------|-------|-------|-----|
| Total | \$40,000 | 1.60% | 1.19% | 4.4 | \$37,175 | 1.48% | 0.92% | 3.9 |
|-------|----------|-------|-------|-----|----------|-------|-------|-----|

As of June 30, 2017 and December 31, 2016, notional amount includes forward starting swaps of \$3.7 billion and \$0.6 billion, respectively, with an average forward start date of 0.2 and 1.2 years, respectively, and an average maturity of 9.8 and 10.7 years, respectively.

2. Average fixed pay rate includes forward starting swaps. Excluding forward starting swaps, the average fixed pay rate was 1.52% and 1.46% as of June 30, 2017 and December 31, 2016, respectively.

16

| Payer Swaptions | Option | | | Underlying Payer Swap | | | Average Receive Rate (LIBOR) | Average Term (Years) |
|-------------------------------------|---------------------|-------|------------------------------------|------------------------------|--------------------|------------------------------------|------------------------------|----------------------|
| | Years to Expiration | Cost | Fair Value | Average Months to Expiration | Notional Amount | Average Fixed Pay Rate | | |
| June 30, 2017 | | | | | | | | |
| ≤ 1 year | \$105 | \$ 49 | 7 | \$3,850 | 2.80% | | 3M | 9.4 |
| > 1 year ≤ 2 years | 13 | 13 | 24 | 450 | 2.72% | | 3M | 10.0 |
| > 2 year ≤ 3 years | 23 | 24 | 35 | 650 | 2.80% | | 3M | 10.0 |
| Total | \$141 | \$ 86 | 12 | \$4,950 | 2.79% | | 3M | 9.5 |
| December 31, 2016 | | | | | | | | |
| Total ≤ 1 year | \$52 | \$ 22 | 6 | \$1,200 | 3.06% | | 3M | 8.3 |
| U.S. Treasury Securities | | | June 30, 2017 | | | December 31, 2016 | | |
| Maturity | | | Face | Cost | Net | Face | Cost | Net |
| | | | Amount | Basis | Fair | Amount | Basis | Fair |
| | | | Net Long / (Short) | | Value | Net Long / (Short) | | Value |
| 5 years | | | \$(128) | \$(127) | \$(127) | \$(400) | \$(404) | \$(392) |
| 7 years | | | (3,486) | (3,466) | (3,450) | (3,056) | (3,041) | (2,930) |
| 10 years | | | (3,744) | (3,683) | (3,644) | (4,416) | (4,236) | (4,132) |
| Total U.S. Treasury securities, net | | | \$(7,358) | \$(7,276) | \$(7,221) | \$(7,872) | \$(7,681) | \$(7,454) |
| U.S. Treasury Futures | | | June 30, 2017 | | | December 31, 2016 | | |
| Maturity | | | Notional | Cost | Market | Notional | Cost | Market |
| | | | Amount - Long (Short) ¹ | Basis ² | Value ³ | Amount - Long (Short) ¹ | Basis ² | Value ³ |
| 5 years | | | \$(730) | \$(862) | \$(860) | \$(730) | \$(862) | \$(859) |
| 10 years | | | (2,180) | (2,743) | (2,736) | (1,080) | (1,347) | (1,342) |
| Total U.S. Treasury futures | | | \$(2,910) | \$(3,605) | \$(3,596) | \$(1,810) | \$(2,209) | \$(2,201) |

1. Notional amount represents the par value (or principal balance) of the underlying U.S. Treasury security.

2. Cost basis represents the forward price to be paid/(received) for the underlying U.S. Treasury security.

3. Market value represents the current market value of the U.S. Treasury futures as of period-end.

4. Net carrying value represents the difference between the fair value and the cost basis of the U.S. Treasury futures as of period-end and is reported in derivative assets/(liabilities), at fair value in our consolidated balance sheets.

| TBA Securities by Coupon | June 30, 2017 | | | | December 31, 2016 | | | |
|-----------------------------------|--|----------------------------|------------------------------|---------------------------------------|--|----------------------------|------------------------------|---------------------------------------|
| | Notional Amount - Long (Short) ¹ | Cost Basis ² | Market Value ³ | Net Carrying Value ⁴ | Notional Amount - Long (Short) ¹ | Cost Basis ² | Market Value ³ | Net Carrying Value ⁴ |
| 15-Year TBA securities: | | | | | | | | |
| 2.5% | \$1,329 | \$1,333 | \$1,334 | \$ 1 | \$1,853 | \$1,870 | \$1,856 | \$ (14) |
| 3.0% | 1,241 | 1,276 | 1,274 | (2) | 292 | 302 | 300 | (2) |
| 3.5% | 20 | 21 | 21 | — | 15 | 16 | 16 | — |
| Total 15-Year TBA securities | 2,590 | 2,630 | 2,629 | (1) | 2,160 | 2,188 | 2,172 | (16) |
| 30-Year TBA securities: | | | | | | | | |
| 3.0% | 3,461 | 3,450 | 3,448 | (2) | 3,027 | 3,114 | 3,007 | (107) |
| 3.5% | 6,771 | 6,952 | 6,949 | (3) | 1,209 | 1,251 | 1,236 | (15) |
| 4.0% | 4,077 | 4,286 | 4,280 | (6) | 4,530 | 4,769 | 4,760 | (9) |
| 4.5% | (32) | (35) | (35) | — | (10) | (10) | (10) | — |
| Total 30-Year TBA securities, net | 14,277 | 14,653 | 14,642 | (11) | 8,756 | 9,124 | 8,993 | (131) |
| Total TBA securities, net | \$16,867 | \$17,283 | \$17,271 | \$ (12) | \$10,916 | \$11,312 | \$11,165 | \$ (147) |

| TBA Securities by Issuer | June 30, 2017 | | | | December 31, 2016 | | | |
|---------------------------|--|----------------------------|------------------------------|---------------------------------------|--|----------------------------|------------------------------|---------------------------------------|
| | Notional Amount - Long (Short) ¹ | Cost Basis ² | Market Value ³ | Net Carrying Value ⁴ | Notional Amount - Long (Short) ¹ | Cost Basis ² | Market Value ³ | Net Carrying Value ⁴ |
| Fannie Mae | \$14,977 | \$15,359 | \$15,346 | \$ (13) | \$9,881 | \$10,251 | \$10,118 | \$ (133) |
| Freddie Mac | 1,890 | 1,924 | 1,925 | 1 | 1,035 | 1,060 | 1,047 | (13) |
| Ginnie Mae | — | — | — | — | — | 1 | — | (1) |
| Total TBA securities, net | \$16,867 | \$17,283 | \$17,271 | \$ (12) | \$10,916 | \$11,312 | \$11,165 | \$ (147) |

1. Notional amount represents the par value (or principal balance) of the underlying Agency security.

2. Cost basis represents the forward price to be paid/(received) for the underlying Agency security.

3. Market value represents the current market value of the TBA contract (or of the underlying Agency security) as of period-end.

4. Net carrying value represents the difference between the market value and the cost basis of the TBA contract as of period-end and is reported in derivative assets/(liabilities), at fair value in our consolidated balance sheets.

Gain (Loss) From Derivative Instruments and Other Securities, Net

The following table summarizes changes in our derivative and other hedge portfolio and their effect on our consolidated statements of comprehensive income for the three and six months ended June 30, 2017 and 2016 (in millions):

| Derivative and Other Hedging Instruments | Beginning Notional Amount | Additions | Settlement, Termination, Expiration or Exercise | Ending Notional Amount | Gain/(Loss) on Derivative Instruments and Other Securities, Net ¹ |
|--|---------------------------|-----------|---|------------------------|--|
| Three months ended June 30, 2017: | | | | | |
| TBA securities, net | \$ 14,170 | 56,306 | (53,609) | \$ 16,867 | \$ 163 |
| Interest rate swaps | \$ 35,775 | 5,725 | (1,500) | \$ 40,000 | (194) |
| Payer swaptions | \$ 2,200 | 2,750 | — | \$ 4,950 | (13) |
| U.S. Treasury securities - short position | \$ (9,169) | (3,932) | 5,743 | \$ (7,358) | (110) |
| U.S. Treasury futures contracts - short position | \$ (1,810) | (3,710) | 2,610 | \$ (2,910) | (16) |
| | | | | | \$ (170) |
| Three months ended June 30, 2016: | | | | | |
| TBA securities, net | \$ 5,813 | 20,066 | (19,123) | \$ 6,756 | \$ 108 |
| Interest rate swaps | \$ 38,175 | 2,550 | (5,600) | \$ 35,125 | (356) |
| Payer swaptions | \$ 1,750 | — | (700) | \$ 1,050 | (4) |
| U.S. Treasury securities - short position | \$ (3,135) | (653) | 858 | \$ (2,930) | (73) |
| U.S. Treasury securities - long position | \$ — | 225 | (163) | \$ 62 | 1 |
| U.S. Treasury futures contracts - short position | \$ (1,860) | (2,060) | 1,960 | \$ (1,960) | (44) |
| | | | | | \$ (368) |
| Six months ended June 30, 2017: | | | | | |
| TBA securities, net | \$ 10,916 | 92,402 | (86,451) | \$ 16,867 | \$ 202 |
| Interest rate swaps | \$ 37,175 | 7,025 | (4,200) | \$ 40,000 | (172) |
| Payer swaptions | \$ 1,200 | 3,750 | — | \$ 4,950 | (24) |
| U.S. Treasury securities - short position | \$ (8,061) | (6,490) | 7,193 | \$ (7,358) | (188) |
| U.S. Treasury securities - long position | \$ 189 | 303 | (492) | \$ — | 1 |
| U.S. Treasury futures contracts - short position | \$ (1,810) | (5,520) | 4,420 | \$ (2,910) | (28) |
| | | | | | \$ (209) |
| Six months ended June 30, 2016: | | | | | |
| TBA securities, net | \$ 7,295 | 38,025 | (38,564) | \$ 6,756 | \$ 324 |
| Interest rate swaps | \$ 40,525 | 3,550 | (8,950) | \$ 35,125 | (1,361) |
| Payer swaptions | \$ 2,150 | — | (1,100) | \$ 1,050 | (11) |
| U.S. Treasury securities - short position | \$ (1,714) | (2,633) | 1,417 | \$ (2,930) | (156) |
| U.S. Treasury securities - long position | \$ 25 | 405 | (368) | \$ 62 | 6 |
| U.S. Treasury futures contracts - short position | \$ (1,860) | (3,920) | 3,820 | \$ (1,960) | (121) |
| | | | | | \$ (1,319) |

1.

Amounts above exclude other miscellaneous gains and losses recognized in gain (loss) on derivative instruments and other securities, net in our consolidated statements of comprehensive income.

Note 7. Pledged Assets

Our funding agreements require us to fully collateralize our obligations under the agreements based upon our counterparties' collateral requirements and their determination of the fair value of the securities pledged as collateral, which fluctuates with changes in interest rates, credit quality and liquidity conditions within the investment banking, mortgage finance and real estate

industries. Our derivative contracts similarly require us to fully collateralize our obligations under such agreements, which will vary over time based on similar factors as well as our counterparties' determination of the value of the derivative contract. We are typically required to post initial collateral upon execution of derivative transactions, such as under our interest rate swap agreements and TBA contracts. Our prime brokerage agreements, pursuant to which we receive custody and settlement services, and the clearing organizations utilized by Bethesda Securities also require that we post minimum daily clearing deposits. If we breach our collateral requirements, we will be required to fully settle our obligations under the agreements, which could include a forced liquidation of our pledged collateral. Our counterparties also apply a "haircut" to our pledged collateral, which means our collateral is valued at slightly less than market value and limits the amount we can borrow against our securities. This haircut reflects the underlying risk of the specific collateral and protects our counterparty against a change in its value. Our agreements do not specify the haircut; rather haircuts are determined on an individual transaction basis. Consequently, our funding agreements and derivative contracts expose us to credit risk relating to potential losses that could be recognized in the event that our counterparties fail to perform their obligations under such agreements. We minimize this risk by limiting our counterparties to major financial institutions with acceptable credit ratings or to registered clearinghouses and U.S. government agencies and we monitor our positions with individual counterparties. In the event of a default by a counterparty we may have difficulty obtaining our assets pledged as collateral to such counterparty and may not receive payments provided for under the terms of our derivative agreements. In the case of centrally cleared instruments, we could be exposed to credit risk if the central clearing agency or a clearing member defaults on its respective obligation to perform under the contract. However, we believe that the risk is minimal due to the clearing exchanges' initial and daily mark to market margin requirements and clearinghouse guarantee funds and other resources that are available in the event of a clearing member default.

Further, each of our International Swaps and Derivatives Association ("ISDA") Master Agreements also contains a cross default provision under which a default under certain of our other indebtedness in excess of certain thresholds causes an event of default under the ISDA Master Agreement. Threshold amounts vary by lender. Following an event of default, we could be required to settle our obligations under the agreements. Additionally, under certain of our ISDA Master Agreements, we could be required to settle our obligations under the agreements if we fail to maintain certain minimum stockholders' equity thresholds or our REIT status or if we fail to comply with limits on our leverage up to certain specified levels. As of June 30, 2017, the fair value of additional collateral that could be required to be posted as a result of the credit-risk-related contingent features being triggered was not material to our financial statements.

As of June 30, 2017, our amount at risk with any counterparty related to our repurchase agreements was less than 5% of our stockholders' equity. As of December 31, 2016, our maximum amount at risk with any counterparty related to our repurchase agreements was 5.5%, of our stockholders' equity and our maximum amount at risk with any counterparty related to our interest rate swap and swaption agreements, excluding centrally cleared swaps, was less than 1% of our stockholders' equity. The following table summarizes certain characteristics of our repurchase agreements outstanding with counterparties representing amounts at risk greater than or equal to 5% of our stockholders' equity as of December 31, 2016 (dollars in millions).

| | December 31, 2016 | | | | |
|-----------------------------|--------------------|--|---------------------------------|---|-------------------------------------|
| | Amount Outstanding | Net Counterparty Exposure ¹ | Percent of Stockholders' Equity | | Weighted Average Months to Maturity |
| J.P. Morgan Securities, LLC | \$4,875 | \$ 405 | 5.5 | % | 34 |

Represents the net carrying value of securities pledged under repurchase agreements, including accrued interest plus 1. any cash or assets on deposit to secure the repurchase obligation, less the amount of the repurchase liability, including accrued interest.

Assets Pledged to Counterparties

The following tables summarize our assets pledged as collateral under our funding, derivative and prime broker agreements by type, including securities pledged related to securities sold but not yet settled, as of June 30, 2017 and December 31, 2016 (in millions):

| Assets Pledged to Counterparties | June 30, 2017 | | Derivative Agreements | Prime Broker Agreements | Total |
|--|------------------------------------|---------------------------|-----------------------|-------------------------|----------|
| | Repurchase Agreements ¹ | Debt of Consolidated VIEs | | | |
| Agency RMBS - fair value | \$40,888 | \$ 737 | \$ 287 | \$ 631 | \$42,543 |
| Accrued interest on pledged securities | 117 | 2 | 1 | 2 | 122 |
| Restricted cash and cash equivalents | 17 | — | 238 | 6 | 261 |
| Total | \$41,022 | \$ 739 | \$ 526 | \$ 639 | \$42,926 |

| Assets Pledged to Counterparties | December 31, 2016 | | Derivative Agreements | Prime Broker Agreements | Total |
|--|--|---------------------------|-----------------------|-------------------------|----------|
| | Repurchase Agreements and FHLB Advances ¹ | Debt of Consolidated VIEs | | | |
| Agency RMBS - fair value | \$43,005 | \$ 818 | \$ 275 | \$ 865 | \$44,963 |
| Non-Agency RMBS - fair value | 90 | — | — | — | 90 |
| U.S. Treasury securities - fair value | 173 | — | — | — | 173 |
| Accrued interest on pledged securities | 122 | 3 | 1 | 2 | 128 |
| Restricted cash and cash equivalents | 60 | — | 14 | — | 74 |
| Total | \$43,450 | \$ 821 | \$ 290 | \$ 867 | \$45,428 |

¹ Includes \$195 million and \$181 million of retained interests in our consolidated VIEs pledged as collateral under repurchase agreements as of June 30, 2017 and December 31, 2016, respectively.

² Includes margin for TBAs cleared through prime broker and other clearing deposits.

As of December 31, 2016, we held \$126 million of membership and activity-based stock in the FHLB of Des Moines, which was redeemed in February 2017 with the termination of our captive insurance subsidiary's FHLB membership such that we held no such stock as of June 30, 2017. FHLB stock is reported at cost, which equals par value, in other assets on our accompanying consolidated balance sheets.

The cash and cash equivalents and Agency securities pledged as collateral under our derivative agreements are included in restricted cash and cash equivalents and Agency securities, at fair value, respectively, on our consolidated balance sheets.

The following table summarizes our securities pledged as collateral under our repurchase agreements and FHLB advances by the remaining maturity of our borrowings, including securities pledged related to sold but not yet settled securities, as of June 30, 2017 and December 31, 2016 (in millions). For the corresponding borrowings associated with the following amounts and the interest rates thereon, refer to Note 5.

| Securities Pledged by Remaining Maturity of Repurchase Agreements and FHLB Advances | June 30, 2017 | | | December 31, 2016 | | |
|---|----------------------------------|--------------------------------------|--|----------------------------------|--------------------------------------|--|
| | Fair Value of Pledged Securities | Amortized Cost of Pledged Securities | Accrued Interest on Pledged Securities | Fair Value of Pledged Securities | Amortized Cost of Pledged Securities | Accrued Interest on Pledged Securities |
| RMBS: ¹ | | | | | | |
| ≤ 30 days | \$19,123 | \$19,188 | \$ 55 | \$19,681 | \$19,863 | \$ 56 |

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| | | | | | | |
|---------------------------|----------|-----------|--------|----------|-----------|--------|
| > 30 and ≤ 60 days | 5,259 | 5,292 | 15 | 8,103 | 8,158 | 23 |
| > 60 and ≤ 90 days | 3,631 | 3,634 | 10 | 4,034 | 4,070 | 11 |
| > 90 days | 12,875 | 12,946 | 37 | 11,278 | 11,380 | 32 |
| Total RMBS | 40,888 | 41,060 | 117 | 43,096 | 43,471 | 122 |
| U.S. Treasury securities: | | | | | | |
| > 1 day ≤ 30 days | — | — | — | 173 | 173 | — |
| Total | \$40,888 | \$ 41,060 | \$ 117 | \$43,269 | \$ 43,644 | \$ 122 |

21

1. Includes \$195 million and \$181 million of retained interests in our consolidated VIEs pledged as collateral under repurchase agreements as of June 30, 2017 and December 31, 2016, respectively.

As of June 30, 2017 and December 31, 2016, none of our borrowings backed by RMBS were due on demand or mature overnight.

The table above excludes Agency securities transferred to our consolidated VIEs. Securities transferred to our consolidated VIEs can only be used to settle the obligations of each respective VIE. However, we may pledge our retained interests in our consolidated VIEs as collateral under our repurchase agreements and derivative contracts. Please refer to Notes 4 and 5 for additional information regarding our consolidated VIEs.

Assets Pledged from Counterparties

As of June 30, 2017 and December 31, 2016, we had assets pledged to us from counterparties as collateral under our reverse repurchase, repurchase and derivative agreements summarized in the tables below (in millions).

| Assets Pledged to AGNC | June 30, 2017 | | | | December 31, 2016 | | | |
|---------------------------------------|-------------------------------------|--------------------------|--------------------------|----------|-------------------------------------|--------------------------|--------------------------|---------|
| | Reverse Repurchase Agreements | Derivative Agreements | Repurchase Agreements | Total | Reverse Repurchase Agreements | Derivative Agreements | Repurchase Agreements | Total |
| Agency RMBS - fair value | \$— | \$ — | —\$ | —\$— | \$— | \$ — | \$ 14 | \$14 |
| U.S. Treasury securities - fair value | 7,315 | — | — | 7,315 | 7,636 | — | — | 7,636 |
| Cash | — | — | — | — | — | 107 | — | 107 |
| Total | \$7,315 | \$ — | —\$ | —\$7,315 | \$7,636 | \$ 107 | \$ 14 | \$7,757 |

U.S. Treasury securities received as collateral under our reverse repurchase agreements that we use to cover short sales of U.S. Treasury securities are accounted for as securities borrowing transactions. We recognize a corresponding obligation to return the borrowed securities at fair value on the accompanying consolidated balance sheets based on the value of the underlying borrowed securities as of the reporting date.

Cash collateral received is recognized in cash and cash equivalents with a corresponding amount recognized in accounts payable and other accrued liabilities on the accompanying consolidated balance sheets.

Offsetting Assets and Liabilities

Certain of our repurchase agreements and derivative transactions are governed by underlying agreements that generally provide for a right of setoff under master netting arrangements (or similar agreements), including in the event of default or in the event of bankruptcy of either party to the transactions. We present our assets and liabilities subject to such arrangements on a gross basis in our consolidated balance sheets. The following tables present information about our assets and liabilities that are subject to master netting arrangements and can potentially be offset on our consolidated balance sheets as of June 30, 2017 and December 31, 2016 (in millions):

| | Offsetting of Financial and Derivative Assets | | | | | | |
|--|--|---|---|---|-----------------------|---------------------------------|------------|
| | Gross Amounts of Recognized Assets | Gross Amounts Offset in the Consolidated Balance Sheets | Net Amounts of Assets Presented in the Consolidated Balance Sheets | Gross Amounts Offset in the Consolidated Balance Sheets | Financial Instruments | Collateral Received | Net Amount |
| June 30, 2017 | | | | | | | |
| Interest rate swap and swaption agreements, at fair value ¹ | \$ 159 | \$ — | —\$ 159 | \$(11) | \$ — | | \$ 148 |
| TBA securities, at fair value | 46 | — | 46 | (46) | — | | — |
| Receivable under reverse repurchase agreements | 7,489 | — | 7,489 | (6,107) | (1,382) | | — |
| Total | \$ 7,694 | \$ — | —\$ 7,694 | \$(6,164) | \$(1,382) | | \$ 148 |
| December 31, 2016 | | | | | | | |
| Interest rate swap and swaption agreements, at fair value ¹ | \$ 342 | \$ — | —\$ 342 | \$(80) | \$(49) | | \$ 213 |
| TBA securities, at fair value | 4 | — | 4 | (4) | — | | — |
| Receivable under reverse repurchase agreements | 7,716 | — | 7,716 | (6,963) | (753) | | — |
| Total | \$ 8,062 | \$ — | —\$ 8,062 | \$(7,047) | \$(802) | | \$ 213 |
| | Offsetting of Financial and Derivative Liabilities | | | | | | |
| | Gross Amounts of Recognized Liabilities | Gross Amounts Offset in the Consolidated Balance Sheets | Net Amounts of Liabilities Presented in the Consolidated Balance Sheets | Gross Amounts Offset in the Consolidated Balance Sheets | Financial Instruments | Collateral Pledged ² | Net Amount |
| June 30, 2017 | | | | | | | |
| Interest rate swap agreements, at fair value ¹ | \$ 15 | \$ — | —\$ 15 | \$(11) | \$(4) | | \$ — |
| TBA securities, at fair value | 58 | — | 58 | (46) | (12) | | — |
| Repurchase agreements | 39,058 | — | 39,058 | (6,107) | (32,951) | | — |
| Total | \$ 39,131 | \$ — | —\$ 39,131 | \$(6,164) | \$(32,967) | | \$ — |
| December 31, 2016 | | | | | | | |
| Interest rate swap agreements, at fair value ¹ | \$ 105 | \$ — | —\$ 105 | \$(80) | \$(25) | | \$ — |
| TBA securities, at fair value | 151 | — | 151 | (4) | (147) | | — |
| Repurchase agreements and FHLB advances | 40,895 | — | 40,895 | (6,963) | (33,932) | | — |
| Total | \$ 41,151 | \$ — | —\$ 41,151 | \$(7,047) | \$(34,104) | | \$ — |

¹ Reported under derivative assets/liabilities, at fair value in the accompanying consolidated balance sheets. Refer to Note 6 for a reconciliation of derivative assets/liabilities, at fair value to their sub-components.

² Includes cash and securities pledged/received as collateral, at fair value. Amounts presented are limited to collateral pledged sufficient to reduce the net amount to zero for individual counterparties, as applicable.

Note 8. Fair Value Measurements

We determine the fair value of our investment securities and debt of consolidated VIEs based upon fair value estimates obtained from multiple third party pricing services and dealers. In determining fair value, third party pricing sources use various valuation approaches, including market and income approaches. Factors used by third party sources in estimating the fair value of an instrument may include observable inputs such as coupons, primary and secondary mortgage rates, pricing information, credit data, volatility statistics, and other market data that are current as of the measurement date. The availability of observable inputs can vary by instrument and is affected by a wide variety of factors, including the type of instrument, whether the instrument is new and not yet established in the marketplace and other characteristics particular to the instrument. Third party pricing sources may also use certain unobservable inputs, such as assumptions of future levels of prepayment, defaults and foreclosures, especially when estimating fair values for securities with lower levels of recent trading activity. We make inquiries of third party pricing sources to understand the significant inputs and assumptions they used to determine their prices. For information regarding valuation of our derivative instruments, please refer to the discussion of derivative and other hedging instruments in Note 3.

We review third party fair value estimates and perform procedures to validate their reasonableness, including an analysis of the range of estimates for each position, comparison to recent trade activity for similar securities, and for consistency with market conditions observed as of the measurement date. While we do not adjust prices we obtain from third party pricing sources, we will exclude third party prices for securities from our estimation of fair value if we determine (based on our validation procedures and our market knowledge and expertise) that the price is significantly different from observable market data would indicate and we cannot obtain an understanding from the third party source as to the significant inputs used to determine the price.

The validation procedures described above also influence our determination of the appropriate fair value measurement classification. We utilize a three-level valuation hierarchy for disclosure of fair value measurement. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement. There were no transfers between valuation hierarchy levels during the three and six months ended June 30, 2017. The three levels of valuation hierarchy are defined as follows:

Level 1 Inputs —Quoted prices (unadjusted) for identical unrestricted assets and liabilities in active markets that are accessible at the measurement date.

Level 2 Inputs —Quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 Inputs —Instruments with primarily unobservable market data that cannot be corroborated.

The following table provides a summary of our assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2017 and December 31, 2016 (in millions):

| | June 30, 2017 | | December 31, 2016 | | | |
|--|----------------|-----------------|-------------------|----------|-----------------|------------|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| Assets: | | | | | | |
| Agency securities | \$— | \$45,226 | \$— | \$— | \$45,393 | \$— |
| Agency securities transferred to consolidated VIEs | — | 737 | — | — | 818 | — |
| Credit risk transfer securities | — | 572 | — | — | 164 | — |
| Non-Agency securities | — | 31 | — | — | 124 | — |
| U.S. Treasury securities | — | — | — | 182 | — | — |
| Interest rate swaps | — | 73 | — | — | 321 | — |
| Swaptions | — | 86 | — | — | 22 | — |
| TBA securities | — | 46 | — | — | 4 | — |
| U.S. Treasury futures | 9 | — | — | 8 | — | — |
| Total | \$9 | \$46,771 | \$— | — | \$46,846 | \$— |
| Liabilities: | | | | | | |
| Debt of consolidated VIEs | \$— | \$405 | \$— | \$— | \$460 | \$— |
| Obligation to return U.S. Treasury securities borrowed under reverse repurchase agreements | 7,221 | — | — | 7,636 | — | — |
| Interest rate swaps | — | 15 | — | — | 105 | — |
| TBA securities | — | 58 | — | — | 151 | — |
| Total | \$7,221 | \$478 | \$— | — | \$716 | \$— |

We elected the option to account for debt of consolidated VIEs at fair value with changes in fair value reflected in earnings during the period in which they occur, because we believe this election more appropriately reflects our financial position as both the consolidated Agency securities and consolidated debt are presented in a consistent manner, at fair value, on our consolidated balance sheets. We estimate the fair value of the consolidated debt based on difference between the fair value of the RMBS transferred to consolidated VIEs and the fair value of our retained interests, each of which is based on valuations obtained from third-party pricing services and non-binding dealer quotes derived from common market pricing methods using "Level 2" inputs, and are more observable than using inputs to estimate the fair value of the consolidated debt on a stand-alone basis.

Excluded from the table above are financial instruments, including cash and cash equivalents, restricted cash and cash equivalents, receivables, payables and borrowings under repurchase agreements and FHLB advances, which are presented in our consolidated financial statements at cost. The cost basis of these instruments is determined to approximate fair value due to their short duration or, in the case of longer-term repo and FHLB advances, due to floating rates of interest based on an index plus or minus a fixed spread which is consistent with fixed spreads demanded in the market. We estimate the fair value of these instruments using "Level 1" or "Level 2" inputs.

Note 9. Net Income (Loss) Per Common Share

Net income (loss) per common share includes no dilution and is computed by dividing net income or (loss) applicable to common stock by the weighted-average number of common shares outstanding for the respective period. Diluted earnings per common share includes the impact of dilutive securities such as unvested restricted stock units and performance share units granted under our long-term incentive program to employees and non-employee Board of Directors. The following table presents the computations of basic and diluted income (loss) per common share for the periods indicated (shares and dollars in millions):

| | Three Months | | Six Months | |
|---|--------------|----------|------------|----------|
| | Ended June | | Ended June | |
| | 30, | 30, | 30, | 30, |
| | 2017 | 2016 | 2017 | 2016 |
| Weighted average number of common shares outstanding - basic | 346.4 | 331.0 | 338.8 | 332.7 |
| Unvested restricted stock units and performance share units | 0.1 | — | 0.1 | — |
| Weighted average number of common shares outstanding - diluted | 346.5 | 331.0 | 338.9 | 332.7 |
| Net income (loss) available (attributable) to common stockholders | \$17 | \$(142) | \$86 | \$(921) |
| Net income (loss) per common share - basic and diluted | \$0.05 | \$(0.43) | \$0.25 | \$(2.77) |

Note 10. Stockholders' Equity

Preferred Stock

Pursuant to our amended and restated certificate of incorporation, we are authorized to designate and issue up to 10.0 million shares of preferred stock in one or more classes or series. Our Board of Directors has designated 6.9 million shares as 8.000% Series A Cumulative Redeemable Preferred Stock ("Series A Preferred Stock") and 8,050 shares as 7.750% Series B Cumulative Redeemable Preferred Stock ("Series B Preferred Stock"). As of June 30, 2017 and December 31, 2016, we had 6.9 million shares of Series A Preferred Stock outstanding and 7.0 million depositary shares outstanding. Each depositary share represents a 1/1,000th interest in a share of our Series B Preferred Stock. As of June 30, 2017 and December 31, 2016, we had 3.1 million shares of authorized but unissued shares of preferred stock. Our Board of Directors may designate additional series of authorized preferred stock ranking junior to or in parity with the Series A or Series B Preferred Stock or designate additional shares of the Series A or Series B Preferred Stock and authorize the issuance of such shares.

Our Series A and Series B Preferred Stock have no stated maturity, are not subject to any sinking fund or mandatory redemption and rank on parity with each other. Under certain circumstances upon a change of control, our Series A and Series B Preferred Stock are convertible to shares of our common stock. Holders of our Series A Preferred Stock and depositary shares underlying our Series B Preferred Stock have no voting rights, except under limited conditions, and are entitled to receive cumulative cash dividends at a rate of 8.000% and 7.750% per annum, respectively, of their \$25.00 per share and \$25.00 per depositary share liquidation preference, respectively, before holders of our common stock are entitled to receive any dividends. As of April 5, 2017, shares of our Series A Preferred Stock are and, beginning on May 8, 2019, depositary shares underlying our Series B Preferred Stock will be redeemable at \$25.00 per share, plus accumulated and unpaid dividends (whether or not declared) exclusively at our option. Depositary shares underlying our Series B Preferred Stock may be redeemed prior to May 8, 2019 under certain circumstances intended to preserve our qualification as a REIT for federal income tax purposes. Dividends are payable quarterly in arrears on the 15th day of each January, April, July and October. As of June 30, 2017, we had declared all required quarterly dividends on our Series A and Series B Preferred Stock.

Common Stock Offering

In May 2017, we completed a public offering in which 24.5 million shares of our common stock were sold to the underwriters for proceeds of \$503 million, or \$20.53 per common share, net of offering costs.

At-the-Market Offering Program

In February 2017, we entered into agreements with sales agents to publicly offer and sell shares of our common stock in privately negotiated and/or at-the-market transactions from time-to-time up to an aggregate amount of \$750 million of shares of our common stock. During the six months ended June 30, 2017, we did not sell any shares of our common stock under the sales agreements.

Common Stock Repurchase Program

In October 2012, our Board of Directors adopted a program that provided for stock repurchases, which, as amended, authorized repurchases of our common stock up to \$2 billion through December 31, 2016. In October 2016, our Board of Directors terminated the existing stock repurchase program and replaced it with a new stock repurchase authorization. Under the new stock repurchase program, we are authorized to repurchase up to \$1 billion of our outstanding shares of common stock through December 31, 2017.

During the six months ended June 30, 2016, we repurchased 6.5 million shares of our common stock at an average repurchase price of \$17.89, including expenses, totaling \$116 million. We did not repurchase shares of our common stock during the six months ended June 30, 2017. As of June 30, 2017, the total remaining amount authorized for repurchases of our common stock was \$1 billion.

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Accumulated Other Comprehensive Income (Loss)

The following table summarizes changes to accumulated OCI for the three and six months ended June 30, 2017 and 2016 (in millions):

| Accumulated Other Comprehensive Income (Loss) | Net Unrealized Gain (Loss) on Available-for-Sale MBS | Net Unrealized Gain (Loss) on Swaps | Total Accumulated OCI Balance |
|---|--|-------------------------------------|-------------------------------|
| Balance as of March 31, 2017 | \$ (351) | \$ — | \$ (351) |
| OCI before reclassifications | 136 | — | 136 |
| Amounts reclassified from accumulated OCI | (15) | — | (15) |
| Balance as of June 30, 2017 | \$ (230) | \$ — | \$ (230) |
| Balance as of March 31, 2016 | \$ 738 | \$ (20) | \$ 718 |
| OCI before reclassifications | 425 | — | 425 |
| Amounts reclassified from accumulated OCI | (55) | 12 | (43) |
| Balance as of June 30, 2016 | \$ 1,108 | \$ (8) | \$ 1,100 |
| Balance as of December 31, 2016 | \$ (397) | \$ — | \$ (397) |
| OCI before reclassifications | 98 | — | 98 |
| Amounts reclassified from accumulated OCI | 69 | — | 69 |
| Balance as of June 30, 2017 | \$ (230) | \$ — | \$ (230) |
| Balance as of December 31, 2015 | \$ (27) | \$ (39) | \$ (66) |
| OCI before reclassifications | 1,188 | — | 1,188 |
| Amounts reclassified from accumulated OCI | (53) | 31 | (22) |
| Balance as of June 30, 2016 | \$ 1,108 | \$ (8) | \$ 1,100 |

The following table summarizes reclassifications out of accumulated OCI for the three and six months ended June 30, 2017 and 2016 (in millions):

| Amounts Reclassified from Accumulated OCI (Gain) loss amounts reclassified from accumulated OCI for available-for-sale MBS upon realization Periodic interest costs of interest rate swaps previously designated as hedges under GAAP, net Total reclassifications | Three Months Ended June 30, 2017 | | Line Item in the Consolidated Statements of Comprehensive Income Where Net Income is Presented |
|---|----------------------------------|---------|--|
| | 2017 | 2016 | |
| | \$ (15) | \$ (55) | Realized gain (loss) on sale of investment securities, net |
| | — | 12 | Interest expense |
| | \$ (15) | \$ (43) | |
| Amounts Reclassified from Accumulated OCI (Gain) loss amounts reclassified from accumulated OCI for available-for-sale MBS upon realization Periodic interest costs of interest rate swaps previously designated as hedges under GAAP, net Total reclassifications | Six Months Ended June 30, 2017 | | Line Item in the Consolidated Statements of Comprehensive Income Where Net Income is Presented |
| | 2017 | 2016 | |
| | \$ 69 | \$ (53) | Realized gain (loss) on sale of investment securities, net |
| | — | 31 | Interest expense |
| | \$ 69 | \$ (22) | |

Note 11. Subsequent Events

On July 13, 2017, our Board of Directors declared a monthly dividend of \$0.18 per common share, payable on August 7, 2017 to common stockholders of record as of July 31, 2017.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is designed to provide a reader of AGNC Investment Corp.'s consolidated financial statements with a narrative from the perspective of management, and should be read in conjunction with the consolidated financial statements and accompanying notes included in this Quarterly Report on Form 10-Q for quarterly period ended June 30, 2017. Our MD&A is presented in six sections:

Executive Overview

Financial Condition

Results of Operations

Liquidity and Capital Resources

Off-Balance Sheet Arrangements

Forward-Looking Statements

EXECUTIVE OVERVIEW

AGNC Investment Corp. ("AGNC," the "Company," "we," "us" and "our") is an internally managed Real Estate Investment Trust ("REIT") that was organized on January 7, 2008 and commenced operations on May 20, 2008 following the completion of our initial public offering. Our common stock is traded on The NASDAQ Global Select Market ("NASDAQ") under the symbol "AGNC."

We operate so as to qualify to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). As such, we are required to distribute annually 90% of our taxable net income. As long as we qualify as a REIT, we will generally not be subject to U.S. federal or state corporate taxes on our taxable net income to the extent that we distribute all of our taxable net income to our stockholders in a timely manner. It is our intention to distribute 100% of our taxable net income, after application of available tax attributes, within the limits prescribed by the Internal Revenue Code, which may extend into the subsequent tax year.

We earn income primarily from investing in Agency residential mortgage-backed securities ("Agency RMBS") on a leveraged basis. These investments consist of residential mortgage pass-through securities and collateralized mortgage obligations ("CMOs") for which the principal and interest payments are guaranteed by a government-sponsored enterprise, such as the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac"), or by a U.S. Government agency, such as the Government National Mortgage Association ("Ginnie Mae") (collectively referred to as "GSEs"). We may also invest in other types of mortgage and mortgage-related securities, such as credit risk transfer ("CRT") securities and non-Agency residential and commercial mortgage-backed securities ("non-Agency RMBS" and "CMBS," respectively), where repayment of principal and interest is not guaranteed by a GSE or U.S. Government agency.

Our principal objective is to provide our stockholders with attractive risk-adjusted returns through a combination of monthly dividends and net asset value (also referred to as "net book value" or "NAV") accretion. We generate income from the interest earned on our investment assets, net of associated borrowing and hedging activities, and net realized gains and losses on our investments and hedging activities. We fund our investments primarily through borrowings structured as repurchase agreements ("repo").

Prior to July 1, 2016, we were externally managed by AGNC Management, LLC (our "Manager"). On July 1, 2016, we completed the acquisition of all of the outstanding membership interests of AGNC Mortgage Management, LLC ("AMM"), the parent company of our Manager, from American Capital Asset Management, LLC, a wholly owned portfolio company of American Capital, Ltd. ("ACAS"). AMM is also the parent company of MTGE Management, LLC, the external manager of MTGE Investment Corp. ("MTGE") (NASDAQ: MTGE). Following the closing of the acquisition of AMM, we became internally managed and are no longer affiliated with ACAS.

Our Investment Strategy

Our investment strategy is designed to:

- generate attractive risk-adjusted returns for our stockholders comprised of monthly dividend distributions and NAV accretion;
- manage an investment portfolio consisting primarily of Agency securities;

- invest a subset of the portfolio in mortgage credit risk oriented assets;
- capitalize on discrepancies in the relative valuations in the Agency and non-Agency securities market;
- manage financing, interest rate, prepayment, extension and credit risks;

continue to qualify as a REIT; and

remain exempt from the requirements of the Investment Company Act of 1940 (the "Investment Company Act").

The size and composition of our investment portfolio depends on investment strategies we implement, the availability of investment capital and overall market conditions, including the availability of attractively priced investments and suitable financing to appropriately leverage our investment portfolio. Market conditions are influenced by, among other things, current levels and expectations for future levels of interest rates, mortgage prepayments, market liquidity, housing prices, unemployment rates, general economic conditions, government participation in the mortgage market and evolving regulations that impact mortgage related activities.

Our Risk Management Strategy

We use a variety of strategies to reduce our exposure to market risks, including interest rate, prepayment, extension, liquidity and credit risks. Our investment strategies take into account our assessment of these risks, the cost of the hedging transactions and our intention to qualify as a REIT. Our hedging strategies are generally not designed to protect our net asset value from "spread risk" (also referred to as "basis risk"), which is the risk that the yield differential between our investments and our hedges fluctuates. In addition, while we use interest rate swaps and other supplemental hedges to attempt to protect our net asset value against moves in interest rates, we may not hedge certain interest rate, prepayment, extension or other market risks if we believe that bearing such risks enhances our return profile, or if the hedging transaction would negatively impact our REIT status.

The risk management actions we take may lower our earnings and dividends in the short term to further our objective of maintaining attractive levels of earnings and dividends over the long term. In addition, some of our hedges are intended to provide protection against larger rate moves and as a result may be relatively ineffective for smaller changes in interest rates. There can also be no certainty that our projections of our exposures to interest rates, prepayment, extension or other risks will be accurate or that our hedging activities will be effective and, therefore, actual results could differ materially. Furthermore, since our hedging strategies are generally not designed to protect our net book value from spread risk, wider spreads between the market yield on our investment securities and benchmark interests underlying our interest rate hedges will typically cause our net book value to decline and can occur independent of changes in benchmark interest rates. For further discussion of our market risks and risk management strategy, please refer to "Quantitative and Qualitative Disclosures about Market Risk" under Item 3 of this Quarterly Report on Form 10-Q.

Trends and Recent Market Impacts

The fixed income markets were relatively stable during the first half of 2017. Agency RMBS marginally underperformed versus interest rate hedges, which led to a 1.3% decline in our tangible net asset value per common share for the first half of the year to \$19.25 per common share as of June 30, 2017 from \$19.50 per common share as of December 31, 2016. The economic return on our tangible common equity was 4.3% for the six month period, inclusive of the \$0.25 per common share decline in our tangible common equity and \$1.08 of dividends per common share paid.

During the first half of the year, the Federal Reserve (the "Fed") increased the federal funds rate by 50 basis points, as it continued its effort to gradually normalize short term interest rates. Conversely, the yield on the 10-year U.S. Treasury declined 13 basis points from 2.43% as of December 31, 2016 to 2.30% as of June 30, 2017, resulting in a gradual flattening of the yield curve. Investors continued to favor higher risk assets, as evidenced by the strong performance of U.S. equities and the continued tightening in spreads associated with a wide range of credit-sensitive fixed income assets. The performance of Agency RMBS, however, was negatively impacted by market expectations regarding a reduction in the Fed's Agency RMBS portfolio as the Fed tapers its reinvestment of proceeds from the portfolio, which is anticipated to begin in the second half of 2017. Although Agency RMBS spreads could widen further in anticipation of or following the commencement of the Fed's balance sheet reduction, which would adversely impact our net asset value, we believe that the Agency RMBS market has largely priced in reduced support from the Fed and that it is unlikely that spreads will move materially wider.

The funding landscape for Agency RMBS remained favorable during the first half of 2017, both in terms of interest rate levels and funding capacity. Our repurchase agreement funding cost increased 29 basis points to 1.27% as of June

30, 2017 from 0.98% as of December 31, 2016, but was largely offset by a corresponding increase in the variable rate received on our interest rate swaps and strong funding dynamics in the TBA dollar roll market. As a result, the increase in our aggregate cost of funds, which includes the implied funding cost on our TBA position and the net cost of our pay fixed swap position, was a more modest increase at 16 basis points to 1.31% as of June 30, 2017 from 1.15% as of December 31, 2016. In addition, we continued to expand our funding activity through our captive broker-dealer subsidiary, Bethesda Securities or "BES," during the first half of the year. Our repurchase agreement funding through BES increased to \$9.9 billion, or 25% of our repurchase agreement funding, as of June 30, 2017, from \$4.7 billion as of December 31, 2016. We also began self-clearing trades for our TBA securities through BES.

Together, our expanded use of BES provides us greater funding diversity at more favorable terms relative to traditional bilateral repurchase agreement funding and third party TBA clearing.

As of June 30, 2017, our "at risk" leverage was 8.1x our tangible equity, up slightly from 8.0x as of March 31, 2017 and 7.7x as of December 31, 2016. Wider Agency RMBS spreads, coupled with positive funding dynamics, could provide an attractive investment opportunity and provide a catalyst for us to operate at higher leverage levels.

As of June 30, 2017, our interest rate hedges equaled 98% of our funding liabilities and net TBA position, compared to approximately 90% as of March 31, 2017 and December 31, 2016, providing us greater protection against net asset value fluctuations due to interest rate changes. Our net "duration gap," which is a measure of the risk due to mismatches that can occur between the interest rate sensitivity of our assets and liabilities, inclusive of hedges, was 0.4 years as of June 30, 2017, down from 1.1 years as of March 31, 2017 and 1.3 years as of December 31, 2016. The reduction in our duration gap was a result of our larger hedge position and the overall decline in interest rates during the first half of the year.

Given the expectation of further Fed rate increases, we expect to maintain a high interest rate hedge ratio over the near to intermediate term, although the mix of our hedge instruments may change. The amount and composition of our hedge portfolio impacts our adjusted net interest expense and net spread and dollar roll income (non-GAAP measures) as these measures include net interest paid or received on our current pay interest rate swaps, but exclude the impact of other hedges, including short U.S. Treasury positions, swaptions, forward starting swaps and fees paid or received for terminated swaps.

Market Information

The following table summarizes interest rates and prices of generic fixed rate Agency RMBS as of each date presented below:

| Interest Rate/Security Price ¹ | June 30, 2016 | Sept. 30, 2016 | Dec. 31, 2016 | Mar. 31, 2017 | June 30, 2017 | June 30, 2017 vs Mar. 31, 2017 | June 30, 2017 vs Dec. 31, 2016 |
|---|------------------|-------------------|------------------|------------------|------------------|--|--|
| LIBOR: | | | | | | | |
| 1-Month | 0.47% | 0.53% | 0.77% | 0.98% | 1.22% | +0.24 bps | +0.45 bps |
| 3-Month | 0.65% | 0.85% | 1.00% | 1.15% | 1.30% | +0.15 bps | +0.30 bps |
| 6-Month | 0.92% | 1.24% | 1.31% | 1.42% | 1.45% | +0.03 bps | +0.14 bps |
| U.S. Treasury Security Rate: | | | | | | | |
| 2-Year U.S. Treasury | 0.59% | 0.76% | 1.20% | 1.26% | 1.38% | +0.12 bps | +0.18 bps |
| 3-Year U.S. Treasury | 0.70% | 0.87% | 1.46% | 1.50% | 1.55% | +0.05 bps | +0.09 bps |
| 5-Year U.S. Treasury | 1.01% | 1.15% | 1.92% | 1.93% | 1.89% | -0.04 bps | -0.03 bps |
| 10-Year U.S. Treasury | 1.49% | 1.61% | 2.43% | 2.39% | 2.30% | -0.09 bps | -0.13 bps |
| 30-Year U.S. Treasury | 2.31% | 2.33% | 3.05% | 3.02% | 2.84% | -0.18 bps | -0.21 bps |
| Interest Rate Swap Rate: | | | | | | | |
| 2-Year Swap | 0.74% | 1.01% | 1.46% | 1.62% | 1.61% | -0.01 bps | +0.15 bps |
| 3-Year Swap | 0.81% | 1.07% | 1.68% | 1.81% | 1.74% | -0.07 bps | +0.06 bps |
| 5-Year Swap | 0.99% | 1.18% | 1.96% | 2.06% | 1.95% | -0.11 bps | -0.01 bps |
| 10-Year Swap | 1.38% | 1.46% | 2.32% | 2.39% | 2.27% | -0.12 bps | -0.05 bps |
| 30-Year Swap | 1.84% | 1.78% | 2.57% | 2.65% | 2.53% | -0.12 bps | -0.04 bps |
| 30-Year Fixed Rate Agency Price: | | | | | | | |
| 3.0% | \$103.75 | \$103.95 | \$99.38 | \$99.15 | \$99.88 | +\$0.73 | +\$0.50 |
| 3.5% | \$105.50 | \$105.53 | \$102.50 | \$102.29 | \$102.70 | +\$0.41 | +\$0.20 |
| 4.0% | \$107.23 | \$107.41 | \$105.13 | \$104.90 | \$105.12 | +\$0.22 | -\$0.01 |
| 4.5% | \$109.17 | \$109.52 | \$107.51 | \$107.24 | \$107.27 | +\$0.03 | -\$0.24 |

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15-Year Fixed Rate Agency

Price:

| | | | | | | | |
|------|----------|----------|----------|----------|----------|---------|---------|
| 2.5% | \$103.48 | \$103.56 | \$100.20 | \$100.03 | \$100.53 | +\$0.50 | +\$0.33 |
| 3.0% | \$104.84 | \$104.99 | \$102.62 | \$102.51 | \$102.64 | +\$0.13 | +\$0.02 |
| 3.5% | \$105.97 | \$105.41 | \$104.17 | \$104.06 | \$104.06 | \$— | -\$0.11 |
| 4.0% | \$103.81 | \$103.73 | \$102.69 | \$103.29 | \$103.44 | +\$0.15 | +\$0.75 |

Price information is for generic instruments only and is not reflective of our specific portfolio holdings. Price information is as of 3:00 p.m. (EST) on such date and can vary by source. Prices and interest rates in the table above were obtained from Barclays. LIBOR rates were obtained from Bloomberg.

The following table summarizes the monthly weighted average actual one-month annualized constant prepayment rates on our investment portfolio during the six months ended June 30, 2017.

| Annualized Monthly Constant Prepayment Rates ¹ | Jan. 2017 | Feb. 2017 | Mar. 2017 | Apr. 2017 | May 2017 | June 2017 |
|---|-----------|-----------|-----------|-----------|----------|-----------|
| AGNC portfolio | 13% | 10% | 9% | 11% | 10% | 12% |

¹ Weighted average actual one-month annualized CPR released at the beginning of the month based on securities held/outstanding as of the preceding month-end.

FINANCIAL CONDITION

As of June 30, 2017 and December 31, 2016, our investment portfolio consisted of \$46.6 billion and \$46.5 billion of investment securities, at fair value, respectively, and \$17.3 billion and \$11.2 billion of TBA securities, at fair value, respectively. The following table is a summary of our investment portfolio as of June 30, 2017 and December 31, 2016 (dollars in millions):

| Investment Portfolio (Includes TBAs) ¹ | June 30, 2017 | | | | December 31, 2016 | | | |
|---|----------------|------------|----------------|-------|-------------------|------------|----------------|-------|
| | Amortized Cost | Fair Value | Average Coupon | % | Amortized Cost | Fair Value | Average Coupon | % |
| Fixed rate Agency RMBS and TBA securities: | | | | | | | | |
| ≤ 15-year: | | | | | | | | |
| ≤ 15-year RMBS | \$10,444 | \$10,520 | 3.33 % | 17 % | \$12,794 | \$12,867 | 3.26 % | 22 % |
| 15-year TBA securities | 2,630 | 2,629 | 2.75 % | 4 % | 2,188 | 2,172 | 2.57 % | 4 % |
| Total ≤ 15-year | 13,074 | 13,149 | 3.21 % | 21 % | 14,982 | 15,039 | 3.16 % | 26 % |
| 20-year RMBS | 736 | 753 | 3.48 % | 1 % | 801 | 817 | 3.49 % | 1 % |
| 30-year: | | | | | | | | |
| 30-year RMBS | 33,703 | 33,370 | 3.71 % | 52 % | 31,553 | 31,052 | 3.63 % | 54 % |
| 30-year TBA securities | 14,653 | 14,642 | 3.52 % | 23 % | 9,124 | 8,993 | 3.58 % | 16 % |
| Total 30-year | 48,356 | 48,012 | 3.65 % | 75 % | 40,677 | 40,045 | 3.62 % | 70 % |
| Total fixed rate Agency RMBS and TBA securities | 62,166 | 61,914 | 3.56 % | 97 % | 56,460 | 55,901 | 3.49 % | 97 % |
| Adjustable rate Agency RMBS | 327 | 334 | 2.94 % | — % | 371 | 379 | 2.96 % | 1 % |
| CMO Agency RMBS: | | | | | | | | |
| CMO | 714 | 722 | 3.43 % | 1 % | 796 | 801 | 3.41 % | 2 % |
| Interest-only strips | 115 | 133 | 4.66 % | — % | 132 | 151 | 5.03 % | — % |
| Principal-only strips | 125 | 131 | — % | — % | 136 | 144 | — % | — % |
| Total CMO Agency RMBS | 954 | 986 | 3.71 % | 2 % | 1,064 | 1,096 | 3.89 % | 2 % |
| Total Agency RMBS and TBA securities | 63,447 | 63,234 | 3.56 % | 99 % | 57,895 | 57,376 | 3.50 % | 100 % |
| Non-Agency RMBS | 8 | 8 | 2.50 % | — % | 102 | 101 | 3.42 % | — % |
| CMBS | 23 | 23 | 6.55 % | — % | 23 | 23 | 6.55 % | — % |
| CRT | 549 | 572 | 5.14 % | 1 % | 161 | 164 | 5.25 % | — % |
| Total investment portfolio | \$64,027 | \$63,837 | 3.57 % | 100 % | \$58,181 | \$57,664 | 3.51 % | 100 % |

¹ TBA securities are presented net of long and short positions. For further details of our TBA securities refer to Note 6 of the accompanying consolidated financial statements.

Our TBA securities are recorded as derivative instruments in our accompanying consolidated financial statements; consequently, our TBA dollar roll transactions represent a form of off-balance sheet financing. As of June 30, 2017 and December 31, 2016, our TBA positions had a net carrying value of \$(12) million and \$(147) million, respectively, reported in derivative assets/(liabilities) on our accompanying consolidated balance sheets. The net carrying value represents the difference between the fair value of the underlying Agency security in the TBA contract and the contract price to be paid or received for the underlying Agency security.

As of June 30, 2017 and December 31, 2016, the weighted average yield on our investment securities (excluding TBAs) was 2.84% and 2.77%, respectively.

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The following tables summarize certain characteristics of our fixed rate Agency RMBS portfolio, inclusive of TBAs, as of June 30, 2017 and December 31, 2016 (dollars in millions):

| Fixed Rate Agency RMBS and TBA Securities | June 30, 2017 Includes Net TBA Position | | | | % Lower Loan Balance & HARP ^{1,2} | Excludes Net TBA Position | | | Projected Life CPR ⁴ |
|---|--|-------------------|---------------|-------------------------|--|--------------------------------------|--------------------|-----------------|---------------------------------------|
| | Par Value | Amortized Cost | Fair Value | Amortized Cost Basis | | Weighted Average WAC ³ | Yield ⁴ | Age (Months) | |
| Fixed rate | | | | | | | | | |
| ≤ 15-year | | | | | | | | | |
| 2.5% | \$3,178 | \$ 3,204 | \$3,206 | 34% | 101.2% | 2.98% | 2.14% | 57 | 9% |
| 3.0% | 3,928 | 4,040 | 4,040 | 53% | 102.9% | 3.49% | 2.18% | 58 | 10% |
| 3.5% | 3,033 | 3,134 | 3,165 | 89% | 103.3% | 3.95% | 2.50% | 66 | 11% |
| 4.0% | 2,340 | 2,433 | 2,472 | 89% | 104.0% | 4.40% | 2.68% | 78 | 12% |
| 4.5% | 248 | 259 | 262 | 98% | 104.5% | 4.87% | 3.02% | 82 | 12% |
| ≥ 5.0% | 3 | 4 | 4 | 21% | 103.1% | 6.63% | 4.67% | 118 | 13% |
| Total ≤ 15-year | 12,730 | 13,074 | 13,149 | 65% | 103.0% | 3.79% | 2.41% | 66 | 10% |
| 20-year | | | | | | | | | |
| ≤ 3.0% | 210 | 209 | 215 | 30% | 99.4% | 3.55% | 3.10% | 49 | 9% |
| 3.5% | 400 | 408 | 417 | 75% | 102.1% | 4.06% | 3.00% | 52 | 11% |
| 4.0% | 50 | 52 | 53 | 50% | 104.3% | 4.54% | 2.96% | 70 | 11% |
| 4.5% | 61 | 65 | 66 | 99% | 106.5% | 4.89% | 2.96% | 79 | 11% |
| ≥ 5.0% | 2 | 2 | 2 | —% | 106.0% | 5.92% | 3.34% | 109 | 17% |
| Total 20-year: | 723 | 736 | 753 | 62% | 101.9% | 4.03% | 3.02% | 55 | 10% |
| 30-year: | | | | | | | | | |
| 3.0% | 6,906 | 6,902 | 6,902 | 2% | 100.2% | 3.58% | 2.96% | 37 | 6% |
| 3.5% | 19,971 | 20,833 | 20,585 | 56% | 105.2% | 4.06% | 2.76% | 44 | 7% |
| 4.0% | 18,036 | 19,167 | 19,053 | 47% | 106.6% | 4.50% | 2.97% | 32 | 9% |
| 4.5% | 1,138 | 1,222 | 1,236 | 87% | 107.5% | 4.97% | 3.26% | 71 | 9% |
| 5.0% | 107 | 114 | 117 | 66% | 106.7% | 5.45% | 3.70% | 110 | 10% |
| ≥ 5.5% | 107 | 118 | 119 | 38% | 109.8% | 6.19% | 3.37% | 128 | 14% |
| Total 30-year | 46,265 | 48,356 | 48,012 | 45% | 105.4% | 4.25% | 2.90% | 40 | 8% |
| Total fixed rate | \$59,718 | \$ 62,166 | \$61,914 | 49% | 104.7% | 4.14% | 2.79% | 46 | 8% |

1. Lower loan balance securities represent pools backed by an original loan balance of ≤ \$150,000. Our lower loan balance securities had a weighted average original loan balance of \$97,000 and \$101,000 for 15-year and 30-year securities, respectively, as of June 30, 2017.

2. HARP securities are defined as pools backed by 100% refinance loans with LTV ≥ 80%. Our HARP securities had a weighted average LTV of 114% and 136% for 15-year and 30-year securities, respectively, as of June 30, 2017.

3. WAC represents the weighted average coupon of the underlying collateral.

4. Portfolio yield incorporates a projected life CPR assumption based on forward rate assumptions as of June 30, 2017.

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| Fixed Rate Agency RMBS and TBA Securities | December 31, 2016 Includes Net TBA Position | | | | Excludes Net TBA Position | | | | Projected Life CPR ⁴ |
|---|--|-------------------|---------------|--|---------------------------|------------------|--|-----------------|---------------------------------------|
| | Par Value | Amortized Cost | Fair Value | % Lower Loan Balance & HARP ^{1,2} | Amortized Cost Basis | WAC ³ | Weighted Average Yield ⁴ | Age (Months) | |
| Fixed rate | | | | | | | | | |
| ≤ 15-year | | | | | | | | | |
| ≤ 2.5% | \$4,877 | \$ 4,945 | \$4,912 | 26% | 101.7% | 2.96% | 2.05% | 50 | 9% |
| 3.0% | 3,460 | 3,561 | 3,561 | 73% | 102.9% | 3.50% | 2.20% | 55 | 9% |
| 3.5% | 3,294 | 3,408 | 3,450 | 90% | 103.4% | 3.95% | 2.50% | 63 | 10% |
| 4.0% | 2,655 | 2,766 | 2,810 | 89% | 104.2% | 4.40% | 2.69% | 72 | 11% |
| 4.5% | 285 | 298 | 302 | 98% | 104.6% | 4.87% | 3.03% | 76 | 11% |
| ≥ 5.0% | 4 | 4 | 4 | 22% | 103.3% | 6.63% | 4.65% | 112 | 13% |
| Total ≤ 15-year | 14,575 | 14,982 | 15,039 | 65% | 103.1% | 3.72% | 2.37% | 60 | 10% |
| 20-year | | | | | | | | | |
| ≤ 3.0% | 225 | 223 | 228 | 31% | 99.4% | 3.55% | 3.10% | 43 | 8% |
| 3.5% | 436 | 445 | 454 | 75% | 102.2% | 4.06% | 3.01% | 46 | 10% |
| 4.0% | 54 | 57 | 58 | 50% | 104.4% | 4.54% | 2.97% | 64 | 10% |
| 4.5% | 68 | 73 | 74 | 99% | 106.7% | 4.90% | 2.99% | 73 | 11% |
| ≥ 5.0% | 3 | 3 | 3 | —% | 106.3% | 5.94% | 3.33% | 104 | 17% |
| Total 20-year: | 786 | 801 | 817 | 63% | 101.9% | 4.03% | 3.03% | 49 | 10% |
| 30-year: | | | | | | | | | |
| ≤ 3.0% | 7,390 | 7,482 | 7,357 | 2% | 100.1% | 3.57% | 2.97% | 26 | 6% |
| 3.5% | 16,365 | 17,227 | 16,849 | 72% | 105.4% | 4.07% | 2.75% | 38 | 7% |
| 4.0% | 13,464 | 14,368 | 14,224 | 61% | 107.4% | 4.51% | 2.92% | 45 | 7% |
| 4.5% | 1,246 | 1,341 | 1,352 | 87% | 107.6% | 4.97% | 3.30% | 67 | 8% |
| 5.0% | 119 | 127 | 130 | 65% | 106.8% | 5.45% | 3.73% | 104 | 10% |
| ≥ 5.5% | 120 | 132 | 133 | 38% | 110.0% | 6.20% | 3.40% | 122 | 14% |
| Total 30-year | 38,704 | 40,677 | 40,045 | 56% | 105.4% | 4.19% | 2.86% | 40 | 7% |
| Total fixed rate | \$54,065 | \$ 56,460 | \$55,901 | 58% | 104.6% | 4.05% | 2.73% | 46 | 8% |

Lower loan balance securities represent pools backed by an original loan balance of ≤ \$150,000. Our lower loan 1. balance securities had a weighted average original loan balance of \$97,000 and \$100,000 for 15-year and 30-year securities, respectively, as of December 31, 2016.

HARP securities are defined as pools backed by 100% refinance loans with LTVs ≥ 80%. Our HARP securities had a 2. weighted average LTV of 113% and 135% for 15-year and 30-year securities, respectively, as of December 31, 2016.

3. WAC represents the weighted average coupon of the underlying collateral.

4. Portfolio yield incorporates a projected life CPR assumption based on forward rate assumptions as of December 31, 2016.

As of June 30, 2017 and December 31, 2016, our investments in CRT and non-Agency securities had the following credit ratings:

| CRT and Non-Agency Security Credit Ratings ¹ | June 30, 2017 | | | December 31, 2016 | | |
|---|---------------|------|------|-------------------|-------|------|
| | CRT | RMBS | CMBS | CRT | RMBS | CMBS |
| AAA | \$ — | \$ 8 | \$ — | \$ — | \$ 99 | \$ — |
| BBB | — | — | 23 | — | — | 23 |
| BB | 78 | — | — | — | — | — |
| B | 490 | — | — | 164 | 2 | — |
| Not Rated | 4 | — | — | — | — | — |

Total \$572 \$ 8 \$ 23 \$164 \$101 \$ 23

1. Represents the lowest of Standard and Poor's ("S&P"), Moody's and Fitch credit ratings, stated in terms of the S&P equivalent rating as of each date.

Our CRT securities reference the performance of loans underlying Agency RMBS issued by Fannie Mae or Freddie Mac, which were subject to their underwriting standards. As of June 30, 2017, our CRT securities had floating rate coupons ranging from 3.8% to 7.6%, referenced to loans originated between 2012 and 2016 with weighted average coupons ranging from 3.6% to 4.2%. As of December 31, 2016, our CRT securities had floating rate coupons ranging from 4.6% to 7.1%, referenced to loans originated between 2015 and 2016 with weighted average coupons ranging from 4.0% to 4.2%.

34

RESULTS OF OPERATIONS

Non-GAAP Financial Measures

In addition to the results presented in accordance with GAAP, our results of operations discussed below include certain non-GAAP financial information, including "adjusted net interest expense," "net spread and dollar roll income," "net spread and dollar roll income, excluding 'catch-up' premium amortization," "estimated taxable income" and the related per common share measures and certain financial metrics derived from such non-GAAP information, such as "cost of funds" and "net interest rate spread."

"Adjusted net interest expense" is measured as interest expense (GAAP measure) adjusted to include interest rate swap periodic costs. "Net spread and dollar roll income" is measured as (i) net interest income (GAAP measure) adjusted to include interest rate swap periodic costs, TBA dollar roll income, management fee income and dividends on REIT equity securities (referred to as "adjusted net interest and dollar roll income") less (ii) total operating expenses (GAAP measure) adjusted to exclude non-recurring transaction costs (referred to as "adjusted operating expenses"). "Net spread and dollar roll income, excluding 'catch-up' premium amortization," further excludes retrospective "catch-up" adjustments to premium amortization cost or benefit due to changes in projected CPR estimates.

By providing such measures, in addition to the related GAAP measures, we believe we give greater transparency into the information used by our management in its financial and operational decision-making. We also believe it is important for users of our financial information to consider information related to our current financial performance without the effects of certain measures that are not necessarily indicative of our current investment portfolio performance and operations.

Specifically, in the case of "adjusted net interest and dollar roll income," we believe the inclusion of TBA dollar roll income is meaningful as TBAs, which are accounted for under GAAP as derivative instruments with gains and losses recognized in other gain (loss) in our consolidated statement of comprehensive income, are economically equivalent to holding and financing generic Agency RMBS using short-term repurchase agreements. Similarly, we believe that the inclusion of periodic interest rate swap settlements in such measure and in "adjusted net interest expense" is meaningful as interest rate swaps are the primary instrument we use to economically hedge against fluctuations in our borrowing costs and it is more indicative of our total cost of funds than interest expense alone. In the case of "net spread and dollar roll income, excluding 'catch-up' premium amortization," we believe the exclusion of "catch-up" adjustments to premium amortization cost or benefit is meaningful as it excludes the cumulative effect from prior reporting periods due to current changes in future prepayment expectations and, therefore, exclusion of such cost or benefit is more indicative of the current earnings potential of our investment portfolio. We also believe the exclusion of non-recurring transactions costs reported in general, administrative and other expense under GAAP is meaningful as they represent non-recurring transaction costs associated with our acquisition of AMM and are not representative of ongoing operating costs. In the case of estimated taxable income, we believe it is meaningful information because it directly relates to the amount of dividends we are required to distribute in order to maintain our REIT qualification status.

However, because such measures are incomplete measures of our financial performance and involve differences from results computed in accordance with GAAP, they should be considered as supplementary to, and not as a substitute for, results computed in accordance with GAAP. In addition, because not all companies use identical calculations, our presentation of such non-GAAP measures may not be comparable to other similarly-titled measures of other companies. Furthermore, estimated taxable income can include certain information that is subject to potential adjustments up to the time of filing our income tax returns, which occurs after the end of our fiscal year.

Item 6. Selected Financial Data

The following selected financial data is derived from our interim consolidated financial statements and the notes thereto. The tables below present our condensed consolidated balance sheets as of June 30, 2017 and December 31, 2016 and our condensed consolidated statements of comprehensive income and key statistics for the three and six months ended June 30, 2017 and 2016 (in millions, except per share amounts):

(\$ in millions, except per share amounts)

| Balance Sheet Data | June 30, December | | | |
|---|-------------------|----------------|--------|----------|
| | 2017 | 31, 2016 | | |
| Investment securities, at fair value | \$46,566 | \$ 46,499 | | |
| Total assets | \$56,711 | \$ 56,880 | | |
| Repurchase agreements, Federal Home Loan Bank advances and other debt | \$39,463 | \$ 41,355 | | |
| Total liabilities | \$48,966 | \$ 49,524 | | |
| Total stockholders' equity | \$7,745 | \$ 7,356 | | |
| Net asset value per common share ¹ | \$20.80 | \$ 21.17 | | |
| Tangible net asset value per common share ² | \$19.25 | \$ 19.50 | | |
| | Three Months | Six Months | | |
| | Ended June 30, | Ended June 30, | | |
| Statement of Comprehensive Income Data | 2017 | 2016 | 2017 | 2016 |
| Interest income | \$293 | \$318 | \$589 | \$613 |
| Interest expense ³ | 112 | 101 | 210 | 200 |
| Net interest income | 181 | 217 | 379 | 413 |
| Other loss, net ³ | (141) | (312) | (246) | (1,247) |
| Operating Expenses | 16 | 40 | 33 | 73 |
| Net income (loss) | 24 | (135) | 100 | (907) |
| Dividend on preferred stock | 7 | 7 | 14 | 14 |
| Net income (loss) available (attributable) to common stockholders | \$17 | \$(142) | \$86 | \$(921) |
| Net income (loss) | \$24 | \$(135) | \$100 | \$(907) |
| Other comprehensive income ³ | 121 | 382 | 167 | 1,166 |
| Comprehensive income | 145 | 247 | 267 | 259 |
| Dividend on preferred stock | 7 | 7 | 14 | 14 |
| Comprehensive income available to common stockholders | \$138 | \$240 | \$253 | \$245 |
| Weighted average number of common shares outstanding - basic | 346.4 | 331.0 | 338.8 | 332.7 |
| Weighted average number of common shares outstanding - diluted | 346.5 | 331.0 | 338.9 | 332.7 |
| Net income (loss) per common share - basic and diluted | \$0.05 | \$(0.43) | \$0.25 | \$(2.77) |
| Comprehensive income per common share - basic and diluted | \$0.40 | \$0.73 | \$0.75 | \$0.74 |
| Dividends declared per common share | \$0.54 | \$0.60 | \$1.08 | \$1.20 |

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| | Three Months Ended June 30, | Six Months Ended June 30, |
|---|--------------------------------------|---------------------------------|
| Other Data (unaudited) * | 2017 | 2016 |
| Average investment securities - at par | \$41,986,544 | \$42,842,116 |
| Average investment securities - at cost | \$43,951,810 | \$44,051,340 |
| Average net TBA portfolio - at cost | \$16,331,238 | \$15,385,191 |
| Average total assets - at fair value | \$54,359,119 | \$54,457,928 |
| Average mortgage borrowings outstanding ⁴ | \$38,945,948 | \$39,076,437 |
| Average stockholders' equity ⁵ | \$7,557,722 | \$7,457,762 |
| Average coupon ⁶ | 3/70 3/63 | 3/68 3/63 |
| Average asset yield ⁷ | 2/66 2/46 | 2/67 2/39 |
| Average cost of funds ⁸ | 0/50 0/46 | 0/50 0/55 |
| Average net interest rate spread | 1/15 1/00 | 1/17 0/84 |
| Average net interest rate spread, including TBA dollar roll income ⁹ | 1/16 1/16 | 1/15 1/05 |
| Average coupon (as of period end) | 3/70 3/63 | 3/70 3/63 |
| Average asset yield (as of period end) | 2/84 2/68 | 2/84 2/68 |
| Average cost of funds (as of period end) ¹⁰ | 0/50 0/35 | 0/50 0/35 |
| Average net interest rate spread (as of period end) | 1/28 1/33 | 1/28 1/33 |
| Economic return on common equity - unannualized ¹¹ | 1/7 3/3 | 3/4 3/7 |
| Economic return on tangible common equity - unannualized ¹² | 2/5 N/A | 4/3 N/A |
| Average "at risk" leverage ¹³ | 7.4:17.2:1 | 7.3:17.1:1 |
| Average tangible net book value "at risk" leverage ¹⁵ | 8.0:1N/A | 7.9:1N/A |
| "At risk" leverage (as of period end) ¹⁴ | 7.5:17.2:1 | 7.5:17.2:1 |
| Tangible net book value "at risk" leverage (as of period end) ¹⁵ | 8.1:1N/A | 8.1:1N/A |
| Expenses % of average total assets | 0/12 0/27 | 0/12 0/25 |
| Expenses % of average assets, including average net TBA position | 0/09 0/24 | 0/09 0/22 |
| Expenses % of average stockholders' equity | 0/85 2/08 | 0/89 1/89 |

* Except as noted below, average numbers for each period are weighted based on days on our books and records. All percentages are annualized, unless otherwise noted.

N/A - Not applicable

Net asset value per common share is calculated as our total stockholders' equity, less our Series A and Series B Preferred Stock aggregate liquidation preference, divided by our number of common shares outstanding as of period end.

Tangible net asset value per common share excludes goodwill and other intangible assets, net.

We voluntarily discontinued hedge accounting for our interest rate swaps as of September 30, 2011. Please refer to our Interest Expense and Cost of Funds discussion in Management's Discussion and Analysis of Financial Condition and Results of Operations and Notes 3 of our Consolidated Financial Statements for additional information regarding our discontinuance of hedge accounting.

Average mortgage borrowings include repurchase agreements used to fund Agency securities ("Agency repo"), FHLB advances and debt of consolidated VIEs. Amount excludes U.S. Treasury repo agreements and TBA contracts.

Average stockholders' equity calculated as our average month-end stockholders' equity during the period.

Average coupon for the period was calculated by dividing our total coupon (or cash) interest income on investment securities by our average investment securities held at par.

7. Average asset yield for the period was calculated by dividing our total cash interest income on investment securities, adjusted for amortization of premiums and discounts, by our average amortized cost of investment securities held. Average cost of funds includes mortgage borrowings and interest rate swap periodic costs. Amount excludes interest rate swap termination fees, forward starting swaps and costs associated with other supplemental hedges, such as interest rate swaptions and U.S. Treasury positions. Average cost of funds for the period was calculated by dividing our total cost of funds by our average mortgage borrowings outstanding for the period.
8. TBA dollar roll income/(loss) is net of short TBAs used for hedging purposes and is recognized in gain (loss) on derivative instruments and other securities, net.
9. Average cost of funds as of period end includes mortgage borrowings outstanding and interest rate swap hedges. Amount excludes costs associated with other supplemental hedges such as swaptions, U.S. Treasuries and TBA positions.
10. Economic return on common equity represents the sum of the change in our net asset value per common share and our dividends declared on common stock during the period over our beginning net asset value per common share. Economic return on tangible common equity represents the sum of the change in our tangible net asset value per common share and our dividends declared on common stock during the period over our beginning tangible net asset value per common share.
11. Average "at risk" leverage is calculated by dividing the sum of our daily weighted average mortgage borrowings and net TBA dollar position (at cost) outstanding for the period by the sum of our average stockholders' equity less our average investment in REIT equity securities for the period. Leverage excludes U.S. Treasury repurchase agreements.
- 12.
- 13.

"At risk" leverage as of period end is calculated by dividing the sum of our mortgage borrowings outstanding, our receivable/payable for unsettled investment securities and our net TBA dollar roll position outstanding as of period end (at cost) by the sum of our total stockholders' equity less the fair value of investments in REIT equity securities at period end. Leverage excludes U.S. Treasury repurchase agreements.

Tangible net book value "at risk" leverage includes the components of "at risk" leverage, with stockholders' equity adjusted to exclude goodwill and other intangible assets, net.

Interest Income and Asset Yield

The following table summarizes our interest income for the three and six months ended June 30, 2017 and 2016 (dollars in millions):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|-----------------------------|---------|---------------------------|---------|
| | 2017 | 2016 | 2017 | 2016 |
| | Amount | Yield | Amount | Yield |
| Cash/coupon interest income | \$389 | 3.70 % | \$452 | 3.63 % |
| Net premium amortization | (96) | (1.04)% | (134) | (1.17)% |
| Interest income | \$293 | 2.66 % | \$318 | 2.46 % |
| Weighted average actual portfolio CPR for securities held during the period | 10.8 % | | 11.8 % | |
| Weighted average projected CPR for the remaining life of securities held as of period end | 8.6 % | | 10.8 % | |
| Average 30-year fixed rate mortgage rate as of period end ¹ | 3.90 % | | 3.48 % | |
| 10-year U.S. Treasury rate as of period end | 2.30 % | | 1.49 % | |

1. Source: Freddie Mac Primary Fixed Mortgage Rate Mortgage Market Survey

The principal elements impacting our interest income are the size of our average investment portfolio and the yield on our investments. The following is a summary of the estimated impact of each of these elements on the decrease in interest income for the three and six months ended June 30, 2017 compared to the prior year period (in millions):

Impact of Changes in the Principal Elements

Impacting Interest Income

Periods ended June 30, 2017 vs. June 30, 2016

| | Total Increase / (Decrease) | Due to Change in Average Portfolio Size | Asset Yield |
|--------------------|-----------------------------|---|-------------|
| Three months ended | \$ (25) | \$(48) | \$ 23 |
| Six months ended | \$ (24) | \$(87) | \$ 63 |

The size of our average investment portfolio decreased in par value, compared to the prior year period, by 15% and 14% for the three and six months ended June 30, 2017, respectively, largely due to a relative shift from investments in Agency RMBS to TBA contracts recognized as derivative assets/(liabilities) on our consolidated financial statements. Our average asset yield was 2.66% and 2.67% for the three and six months ended June 30, 2017, respectively, compared to 2.46% and 2.39%, respectively, for the prior year period. Our average asset yield includes "catch-up" premium amortization cost due to changes in CPR forecasts of \$13 million and \$22 million for the three and six months ended June 30, 2017, respectively, compared to \$32 million and \$87 million, respectively, for the prior year periods. Excluding "catch-up" premium amortization cost, our average asset yield increased to 2.78% and 2.77% for

the three and six months ended June 30, 2017, respectively, compared to 2.70% and 2.73%, respectively, for the prior year period, largely to changes in asset composition.

Leverage

Our primary measure of leverage is our tangible net book value "at risk" leverage ratio. Tangible net book value "at risk" leverage is measured as the sum of our mortgage borrowings (consisting of repurchase agreements used to fund our investment securities ("Agency repo"), FHLB advances and debt of consolidated VIEs), net TBA position (at cost) and our net receivable/payable for unsettled investment securities divided by the sum of our total stockholders' equity adjusted to exclude goodwill and other intangible assets related to our acquisition of AMM on July 1, 2016.

We include our net TBA position in our measure of leverage because a long TBA position carries similar risks as if we had purchased the underlying Agency RMBS and funded the purchases with on-balance sheet funding liabilities. Similarly, a short

TBA position has substantially the same effect as selling the underlying Agency RMBS and reducing our on-balance sheet funding commitments. (Refer to Liquidity and Capital Resources for further discussion of TBA dollar roll positions). Repurchase agreements used to fund short-term investments in U.S. Treasury securities ("U.S. Treasury repo") are excluded from our measure of leverage due to the temporary and highly liquid nature of these investments. Our tangible net book value "at risk" leverage was 8.1x and 7.7x as of June 30, 2017 and December 31, 2016, respectively. The table below presents our average and quarter-end mortgage borrowings, net TBA position and leverage ratios for the periods listed below (dollars in millions):

| Quarter Ended | Mortgage Borrowings ¹ | | | Net TBA Position Long/(Short) ² | | Average Tangible Net Book Value "At Risk" Leverage during the Period ³ | Average "At Risk" Leverage during the Period ⁴ | Tangible Net Book Value "At Risk" Leverage as of Period End ³ | "At Risk" Leverage as of Period End ⁵ |
|--------------------|----------------------------------|----------------------|---------------|--|---------------|---|---|--|--|
| | Average Daily Amount | Maximum Daily Amount | Ending Amount | Average Daily Amount | Ending Amount | | | | |
| June 30, 2017 | \$38,945 | \$40,112 | \$39,463 | \$16,931 | \$17,283 | 8.0:1 | 7.4:1 | 8.1:1 | 7.5:1 |
| March 31, 2017 | \$39,203 | \$41,221 | \$39,809 | \$13,460 | \$14,377 | 7.8:1 | 7.2:1 | 8.0:1 | 7.4:1 |
| December 31, 2016 | \$41,031 | \$42,157 | \$41,183 | \$14,141 | \$11,312 | 7.8:1 | 7.3:1 | 7.7:1 | 7.1:1 |
| September 30, 2016 | \$44,401 | \$46,555 | \$41,154 | \$10,748 | \$15,540 | 7.6:1 | 7.1:1 | 7.7:1 | 7.2:1 |
| June 30, 2016 | \$46,948 | \$48,875 | \$45,502 | \$8,238 | \$6,975 | N/A | 7.2:1 | N/A | 7.2:1 |
| March 31, 2016 | \$45,926 | \$49,767 | \$48,875 | \$8,144 | \$5,983 | N/A | 7.0:1 | N/A | 7.3:1 |

¹ Mortgage borrowings includes Agency repo, FHLB advances and debt of consolidated VIEs. Amounts exclude U.S. Treasury repo agreements.

² Daily average and ending net TBA position outstanding measured at cost.

³ Tangible net book value "at risk" leverage includes the components of "at risk" leverage with stockholders' equity adjusted to exclude goodwill and other intangible assets, net.

⁴ Average "at risk" leverage during the period was calculated by dividing the sum of our daily weighted average mortgage borrowings and net TBA position (at cost) outstanding during the period by the sum of our average month-end stockholders' equity less our average investment in REIT equity securities for the period.

⁵ "At risk" leverage as of period end is calculated by dividing the sum of our mortgage borrowings outstanding, our receivable/payable for unsettled investment securities and our net TBA dollar roll position outstanding as of period end (at cost) by the sum of our total stockholders' equity less the fair value of investments in REIT equity securities at period end. Leverage excludes U.S. Treasury repurchase agreements.

Interest Expense and Cost of Funds

Our interest expense is comprised of interest expense on Agency repo agreements and other mortgage borrowings. Prior to fiscal year 2017, interest expense also includes the reclassification of accumulated OCI into interest expense related to previously de-designated interest rate swaps.

Our "adjusted net interest expense," also referred to as our "cost of funds" when stated as a percentage of our mortgage borrowings outstanding, includes periodic interest costs on our interest rate swaps reported in gain/loss on derivative instruments and other securities, net in our consolidated statements of comprehensive income. Our cost of funds does not include swap termination fees paid or received, forward starting swaps or the impact of other supplemental hedges, such as swaptions and U.S. Treasury positions. Our cost of funds also does not include the implied financing cost of our net TBA dollar roll position, although it includes interest rate swap hedge costs related to our TBA dollar roll funded assets. Consequently, our cost of funds measured as a percentage of our outstanding mortgage borrowings is higher than if we allocated a portion of our swap hedge costs to our TBA dollar roll funded

assets.

Our average cost of funds was 1.51% and 1.50% of our average mortgage borrowings for the three and six months ended June 30, 2017, respectively, compared to 1.46% and 1.55% for the prior year period, respectively. The table below presents a reconciliation of our interest expense (the most comparable GAAP financial measure) to our adjusted net interest expense and cost of funds (non-GAAP financial measures) for the three and six months ended June 30, 2017 and 2016 (dollars in millions):

39

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|-----------------------------|---------------------|---------------------------|---------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Adjusted Net Interest Expense and Cost of Funds | Amount ¹ | Amount ¹ | Amount ¹ | Amount ¹ |
| Interest expense: | | | | |
| Interest expense on mortgage borrowings | \$112 1.15% | \$89 0.76% | \$210 1.08% | \$169 0.73% |
| Periodic interest costs of interest rate swaps previously designated as hedges under GAAP, net | — — % | 12 0.10% | — — % | 31 0.13% |
| Total interest expense | 112 1.15% | 101 0.86% | 210 1.08% | 200 0.86% |
| Periodic interest costs of interest rate swaps reported in gain (loss) on derivative instruments and other securities, net | 35 0.36% | 69 0.60% | 80 0.41% | 158 0.67% |
| Total adjusted net interest expense and cost of funds | \$147 1.51% | \$170 1.46% | \$290 1.50% | \$358 1.55% |

1. Percent of our average mortgage borrowings outstanding for the period annualized.

The principal elements impacting our adjusted net interest expense are the size of our average mortgage borrowings and interest rate swap portfolio (excluding forward starting swaps) outstanding during the period, the average interest rate on our borrowings and the average net interest rate paid/received on our interest rate swaps. The following is a summary of the estimated impact of these elements on our adjusted net interest expense for the three and six months ended June 30, 2017, compared to the prior year period (in millions):

Impact of Changes in the Principal Elements of Adjusted Net Interest Expense

Periods ended June 30, 2017 vs. June 30, 2016

| | Total Increase / (Decrease) | Due to Change in Average Borrowing / Swap Balance | Due to Change in Borrowing / Swap Rate |
|---|-----------------------------|---|--|
| Three months ended: | | | |
| Interest expense on mortgage borrowings | \$ 23 | \$(15) | \$ 38 |
| Periodic interest rate swap costs | (46) | 7 | (53) |
| Total change in adjusted net interest expense | \$ (23) | \$(8) | \$ (15) |
| Six months ended: | | | |
| Interest expense on mortgage borrowings | \$ 41 | \$(26) | \$ 67 |
| Periodic interest rate swap costs | (109) | 8 | (117) |
| Total change in adjusted net interest expense | \$ (68) | \$(18) | \$ (50) |

The average interest rate on our mortgage borrowings increased for the current year periods commensurate with increases in the federal funds rate. The size of our average borrowings outstanding decreased compared to the prior year periods largely due to the relative shift from Agency RMBS to TBA holdings. The decrease in our periodic swap cost was due to both a decline in the average rate paid and an increase in the floating rate received on our pay-fixed rate receive-floating interest rate swaps. The size of our interest rate swap portfolio increased relative to our mortgage borrowings as a function of our larger TBA dollar roll position.

The table below presents a summary of our average mortgage borrowings and our average interest rates swaps outstanding, excluding forward starting swaps, for the three and six months ended June 30, 2017 and 2016 (dollars in millions):

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| | Three Months Ended June 30, | | Six Months Ended June 30, | | |
|--|--------------------------------|----------|------------------------------|----------|----|
| | 2017 | 2016 | 2017 | 2016 | |
| Average Ratio of Interest Rate Swaps Outstanding (Excluding Forward Starting Swaps) to Mortgage Borrowings Outstanding | | | | | |
| Average mortgage borrowings | \$38,945 | \$46,948 | \$39,073 | \$46,437 | |
| Average notional amount of interest rate swaps (excluding forward starting swaps) | \$36,549 | \$33,742 | \$36,161 | \$34,776 | |
| Average ratio of interest rate swaps to mortgage borrowings | 94 | % 72 | % 93 | % 75 | % |
| Average pay rate | 1.52 | % 1.60 | % 1.50 | % 1.68 | % |
| Average receive rate | (1.14 |)% (0.64 |)% (1.05 |)% (0.59 |)% |
| Average net pay/(receive) rate | 0.38 | % 0.96 | % 0.45 | % 1.09 | % |

40

For the three and six months ended June 30, 2017, we had an average forward starting swap balance of \$2.5 billion and \$1.5 billion, respectively, compared to \$3.4 billion and \$3.6 billion, respectively, for the prior year period. Forward starting interest rate swaps do not impact our adjusted net interest expense and cost of funds until they commence accruing net interest settlements on their forward start dates. Including forward starting swaps and our net TBA position, our average ratio of interest rate swaps outstanding to our average mortgage borrowings and net TBA position (at cost) was 70% and 69% for the three and six months ended June 30, 2017, respectively, compared to 67% and 70%, respectively, for the prior year period.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|----------|------------------------------|----------|
| | 2017 | 2016 | 2017 | 2016 |
| Average Ratio of Interest Rate Swaps Outstanding (Including Forward Starting Swaps) to Mortgage Borrowings and Net TBA Position | | | | |
| Average mortgage borrowings | \$38,945 | \$46,948 | \$39,073 | \$46,437 |
| Average net TBA position - at cost | 16,931 | 8,238 | 15,205 | 8,191 |
| Total average mortgage borrowings and net TBA position | \$55,876 | \$55,186 | \$54,278 | \$54,628 |
| Average notional amount of interest rate swaps (including forward starting swaps) | \$39,043 | \$37,105 | \$37,689 | \$38,418 |
| Average ratio of interest rate swaps to mortgage borrowings and net TBA position | 70 | % 67 | % 69 | % 70 |

Net Spread and Dollar Roll Income

The table below presents a reconciliation of our net interest income (the most comparable GAAP financial measure) to our net spread and dollar roll income and to our net spread and dollar roll income, excluding estimated "catch-up" premium amortization cost, (non-GAAP financial measures) for the three and six months ended June 30, 2017 and 2016 (dollars in millions):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|-----------------------------------|--------|---------------------------------|--------|
| | 2017 | 2016 | 2017 | 2016 |
| Net interest income | \$181 | \$217 | \$379 | \$413 |
| Periodic interest costs of interest rate swaps, net ¹ | (35) | (69) | (80) | (158) |
| TBA dollar roll income ¹ | 93 | 44 | 164 | 94 |
| Management fee income | 4 | — | 7 | — |
| Dividend from REIT equity securities ¹ | — | 1 | — | 2 |
| Adjusted net interest and dollar roll income | 243 | 193 | 470 | 351 |
| Operating expenses: | | | | |
| Total operating expenses | 16 | 40 | 33 | 73 |
| Non-recurring transaction costs | — | 9 | — | 9 |
| Adjusted Operating Expenses | 16 | 31 | 33 | 64 |
| Net spread and dollar roll income | 227 | 162 | 437 | 287 |
| Dividend on preferred stock | 7 | 7 | 14 | 14 |
| Net spread and dollar roll income available to common stockholders | 220 | 155 | 423 | 273 |
| Estimated "catch-up" premium amortization cost due to change in CPR forecast | 13 | 32 | 22 | 87 |
| Net spread and dollar roll income, excluding "catch-up" premium amortization, available to common stockholders | \$233 | \$187 | \$445 | \$360 |
| Weighted average number of common shares outstanding - basic | 346.4 | 331.0 | 338.8 | 332.7 |
| Weighted average number of common shares outstanding - diluted | 346.5 | 331.0 | 338.9 | 332.7 |
| Net spread and dollar roll income per common share - basic and diluted | \$0.63 | \$0.46 | \$1.25 | \$0.82 |
| | \$0.67 | \$0.56 | \$1.31 | \$1.08 |

Net spread and dollar roll income, excluding "catch-up" premium amortization, per common share - basic and diluted

¹ Reported in gain (loss) on derivative instruments and other securities, net in our consolidated statements of comprehensive income

Net spread and dollar roll income, excluding "catch-up" premium amortization adjustments, for the three and six months ended June 30, 2017 was \$0.67 and \$1.31 per common share, respectively, compared to \$0.56 and \$1.08 per common share, respectively, for the prior year period. The increase relative to the prior year period was due to the combination of lower operating costs as a function of our management internalization during the third quarter of 2016, higher TBA dollar roll income and a lower aggregate cost of funds, including the implied funding cost on our TBA position.

41

Our average net interest rate spread and dollar roll income (i.e., the difference between the average yield on our assets and our average cost of funds inclusive of TBAs), excluding "catch-up" premium amortization cost, was 1.55% and 1.53% for the three and six months ended June 30, 2017, respectively, compared to 1.38% and 1.35%, respectively, for the prior year period. Including catch-up premium amortization adjustments, our net interest rate spread and dollar roll income was 1.46% and 1.45% for the three and six months ended June 30, 2017, respectively, compared to 1.16% and 1.05%, respectively, for the prior year period.

Gain (Loss) on Sale of Investment Securities, Net

The following table is a summary of our net gain (loss) on sale of investment securities for the three and six months ended June 30, 2017 and 2016 (in millions):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|-----------------------------|-----------|---------------------------|------------|
| | 2017 | 2016 | 2017 | 2016 |
| Investment securities sold, at cost | \$(2,987) | \$(7,508) | \$(8,355) | \$(11,023) |
| Proceeds from sale ¹ | 3,002 | 7,563 | 8,286 | 11,076 |
| Net gain (loss) on sale of investment securities | \$15 | \$55 | \$(69) | \$53 |
| Gross gain on sale of investment securities | \$22 | \$55 | \$26 | \$60 |
| Gross loss on sale of investment securities | (7) | — | (95) | (7) |
| Net gain (loss) on sale of investment securities | \$15 | \$55 | \$(69) | \$53 |

¹ Proceeds include cash received during the period, plus receivable for investment securities sold during the period as of period end.

Gain (Loss) on Derivative Instruments and Other Securities, Net

The following table is a summary of our gain (loss) on derivative instruments and other securities, net for the three and six months ended June 30, 2017 and 2016 (in millions):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|-----------------------------|--------|---------------------------|---------|
| | 2017 | 2016 | 2017 | 2016 |
| Periodic interest costs of interest rate swaps, net | \$(35) | \$(69) | \$(80) | \$(158) |
| Realized gain (loss) on derivative instruments and other securities, net: | | | | |
| TBA securities - dollar roll income, net | 93 | 44 | 164 | 94 |
| TBA securities - mark-to-market net gain (loss) | 152 | 9 | (98) | 147 |
| Payer swaptions | — | (13) | — | (20) |
| U.S. Treasury securities - long position | — | 1 | 1 | 6 |
| U.S. Treasury securities - short position | (22) | (29) | (16) | (53) |
| U.S. Treasury futures - short position | (29) | 15 | (27) | (59) |
| Interest rate swaps - termination fees and CME variation margin settlements, net | (160) | (430) | 107 | (566) |
| Other | 1 | 1 | 2 | 8 |
| Total realized gain (loss) on derivative instruments and other securities, net | 35 | (402) | 133 | (443) |
| Unrealized gain (loss) on derivative instruments and other securities, net: | | | | |
| TBA securities - mark-to-market net gain (loss) | (82) | 55 | 136 | 83 |
| Interest rate swaps | 1 | 143 | (199) | (637) |
| Payer swaptions | (13) | 9 | (24) | 9 |
| U.S. Treasury securities - short position | (88) | (44) | (172) | (103) |
| U.S. Treasury futures - short position | 13 | (59) | (1) | (62) |
| Debt of consolidated VIEs | — | (1) | (1) | (6) |
| REIT equity securities | — | 2 | — | 7 |
| Other | — | (1) | (1) | (1) |
| Total unrealized loss on derivative instruments and other securities, net | (169) | 104 | (262) | (710) |

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Total loss on derivative instruments and other securities, net \$(169) \$(367) \$(209) \$(1,311)

For further details regarding our use of derivative instruments and related activity refer to Notes 3 and 6 of our Consolidated Financial Statements in this Form 10-Q.

Operating Expenses

Prior to our acquisition of AMM and related management internalization on July 1, 2016, we paid our Manager a management fee payable monthly in arrears in an amount equal to one-twelfth of 1.25% of our month-end stockholders' equity, as defined in our management agreement. Following our management internalization, we no longer incur a management fee, but we incur expenses associated with an internally managed organization, including compensation expense previously borne by our Manager. For the three and six months ended June 30, 2016, we incurred management fees of \$25 million and \$52 million, respectively. For three and six months ended June 30, 2017, we incurred compensation and benefits expense of \$10 million and \$20 million, respectively, consisting of base salary, annual incentive and employee retention bonus accruals, benefits expense and long-term incentive compensation costs.

For the three and six months ended June 30, 2017, we incurred other operating expenses of \$6 million and \$13 million, respectively, compared to \$15 million and \$21 million, respectively, for the prior year period. Excluding non-recurring acquisition costs, we incurred other operating expenses of \$6 million and \$12 million, respectively, for the prior year period. Other operating expenses primarily consist of prime broker fees; clearing, settlement and regulatory fees incurred by BES; information technology costs; accounting, legal and Board of Director fees; amortization of intangible assets associated with our acquisition of AMM; and other general overhead expenses.

Our total annualized operating expense as a percentage of our average stockholders' equity was 0.85% and 0.89% for the three and six months ended June 30, 2017, compared to 2.08% and 1.89%, respectively, for the prior year period. Excluding non-recurring acquisition costs, our total operating expense as a percentage of our stockholders' equity was 1.61% and 1.65%, respectively, for the prior year period.

Dividends and Income Taxes

For the three months ended June 30, 2017 and 2016, we had estimated taxable income available to common stockholders of \$46 million and \$73 million (or \$0.13 and \$0.22 per common share), respectively. For the six months ended June 30, 2017 and 2016, we had estimated taxable income available to common stockholders of \$76 million and \$147 million (or \$0.22 and \$0.44 per common share), respectively. Income as determined under GAAP differs from income as determined under tax rules because of both temporary and permanent differences in income and expense recognition. The primary differences are (i) unrealized gains and losses on derivative instruments and other securities marked-to-market in current income for GAAP purposes, but excluded from taxable income until realized or settled, (ii) timing differences, both temporary and potentially permanent, in the recognition of certain realized gains and losses and (iii) temporary differences related to the amortization of premiums and discounts on investments. Furthermore, our estimated taxable income is subject to potential adjustments up to the time of filing our appropriate tax returns, which occurs after the end of our fiscal year. The following is a reconciliation of our GAAP net income to our estimated taxable income for the three and six months ended June 30, 2017 and 2016 (dollars in millions, except per share amounts):

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| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|-----------------------------------|---------|---------------------------------|---------|
| | 2017 | 2016 | 2017 | 2016 |
| Net income (loss) | \$24 | \$(135) | \$100 | \$(907) |
| Estimated book to tax differences: | | | | |
| Premium amortization, net | 4 | 20 | 1 | 75 |
| Realized gain/loss, net | 99 | 391 | (280) | 484 |
| Net capital loss/(utilization of net capital loss carryforward) | (232) | (99) | 44 | (198) |
| Unrealized gain/loss, net | 160 | (106) | 237 | 698 |
| Other | (2) | 9 | (12) | 9 |
| Total book to tax differences | 29 | 215 | (10) | 1,068 |
| Estimated REIT taxable income | 53 | 80 | 90 | 161 |
| Dividend on preferred stock | 7 | 7 | 14 | 14 |
| Estimated REIT taxable income available to common stockholders | \$46 | \$73 | \$76 | \$147 |
| Weighted average number of common shares outstanding - basic | 346.4 | 331.0 | 338.8 | 332.7 |
| Weighted average number of common shares outstanding - diluted | 346.5 | 331.0 | 338.9 | 332.7 |
| Estimated REIT taxable income per common share - basic and diluted | \$0.13 | \$0.22 | \$0.22 | \$0.44 |

| | | | | |
|---|--------|--------|--------|--------|
| Beginning cumulative non-deductible net capital loss | \$728 | \$585 | \$452 | \$684 |
| Net capital loss / (Utilization of net capital loss carryforward) | (232) | (99) | 44 | (198) |
| Ending cumulative non-deductible net capital loss | \$496 | \$486 | \$496 | \$486 |
| Ending cumulative non-deductible net capital loss per ending common share | \$1.39 | \$1.47 | \$1.39 | \$1.47 |

As of June 30, 2017, we had \$0.5 billion (or \$1.39 per common share) of net capital loss carryforwards, which expire beginning in fiscal year 2019.

The following table summarizes dividends declared on our Series A Preferred Stock, depositary shares underlying our Series B Preferred Stock and common stock during the six months ended June 30, 2017 and 2016:

| Quarter Ended | Dividends Declared per Share | | |
|----------------|------------------------------|---|--------------|
| | Series A Preferred Stock | Series B Preferred Stock (Per Depositary Share) | Common Stock |
| March 31, 2017 | \$0.50000 | \$0.484375 | \$ 0.54 |
| June 30, 2017 | \$0.50000 | \$0.484375 | \$ 0.54 |
| Total | \$1.00000 | \$0.968750 | \$ 1.08 |
| March 31, 2016 | \$0.50000 | \$0.484375 | \$ 0.60 |
| June 30, 2016 | \$0.50000 | \$0.484375 | \$ 0.60 |
| Total | \$1.00000 | \$0.968750 | \$ 1.20 |

The tax characterization of our fiscal year 2017 dividends will be determined and reported to stockholders on their annual Form 1099-DIV statement after the end of the year.

Other Comprehensive Income

Other comprehensive income primarily consists of unrealized gains on our Agency RMBS designated as "available-for-sale," net of reversals of prior period unrealized gains and losses upon realization. For the three and six months ended June 30, 2017, we had other comprehensive income of \$121 million and \$167 million, respectively, and, for the three and six months June 30, 2016, \$382 million and \$1.2 billion, respectively, commensurate with the decline in long-term interest rates during the current and prior year periods.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of funds are borrowings under master repurchase agreements, asset sales, receipts of monthly principal and interest payments on our investment portfolio and equity offerings. We also enter into TBA contracts as a means of acquiring or disposing of Agency securities and utilize TBA dollar roll transactions to finance Agency RMBS purchases. Because the level of our borrowings can be adjusted on a daily basis, the level of cash and cash equivalents carried on our balance sheet is significantly less important than the potential liquidity available under our borrowing arrangements. Our leverage will vary periodically depending on market conditions and our assessment of risks and returns. We generally would expect our leverage to be within six to eleven times the amount of our tangible stockholders' equity. However, under certain market conditions, we may operate at leverage levels outside of this range for extended periods of time.

We currently believe that we have sufficient liquidity and capital resources available for the acquisition of additional investments, repayments on borrowings, maintenance of any margin requirements and the payment of cash dividends as required for our continued qualification as a REIT. We currently expect to distribute 100% of our taxable income so that we are not subject to U.S. federal and state corporate income taxes. Our REIT distribution requirement of at least 90% of our taxable income limits our ability to retain earnings and thereby replenish or increase capital from operations.

Debt Capital

As of June 30, 2017 and December 31, 2016, our mortgage borrowings and net TBA position consisted of the following (\$ in millions):

| | June 30, 2017 | | December 31, 2016 | |
|--|---------------|-------|-------------------|-------|
| | Amount | % | Amount | % |
| Mortgage Funding | | | | |
| Repurchase agreements used to fund Agency RMBS ¹ | \$39,058 | 69 % | \$37,686 | 71 % |
| FHLB advances | — | — % | 3,037 | 6 % |
| Debt of consolidated variable interest entities, at fair value | 405 | 1 % | 460 | 1 % |
| Total mortgage borrowings | 39,463 | 70 % | 41,183 | 78 % |
| Net TBA position, at cost | 17,283 | 30 % | 11,312 | 22 % |
| Total mortgage funding | \$56,746 | 100 % | \$52,495 | 100 % |

1. Excludes repurchase agreements used to fund U.S. Treasury securities of \$0 million and \$172 million as of June 30, 2017 and December 31, 2016, respectively.

Our tangible net book value "at risk" leverage was 8.1x and 7.7x as of June 30, 2017 and December 31, 2016, measured as the sum of our total mortgage borrowings, net TBA position (at cost) and net payable for unsettled investment securities divided by the sum of our total stockholders' equity adjusted to exclude goodwill and other intangible assets.

Repurchase Agreements

As part of our investment strategy, we borrow against our investment portfolio pursuant to master repurchase agreements. We expect that the majority of our borrowings under such master repurchase agreements will have maturities ranging up to one year, but we may have longer-term borrowings ranging up to five years or longer. Borrowings under our master repurchase agreements with maturities greater than 90 days will typically have floating rates of interest based on LIBOR plus or minus a fixed spread.

As of June 30, 2017, we had \$39.1 billion of repurchase agreements outstanding used to fund acquisitions of investment securities with a weighted average cost of funds of 1.27% and a weighted average remaining days-to-maturity of 154 days, compared \$37.7 billion, 0.98% and 187 days, respectively, as of December 31, 2016. To limit our exposure to counterparty credit risk, we diversify our funding across multiple counterparties and by counterparty region. Our wholly-owned captive broker-dealer, Bethesda Securities, also has direct access to bilateral and triparty funding, including the General Collateral Finance Repo service offered by the FICC, which provides us greater depth and diversity of funding at favorable terms relative to traditional bilateral repurchase agreement funding. As of June 30, 2017, \$9.9 billion of our repurchase agreement funding was accessed through Bethesda Securities.

As of June 30, 2017, we had master repurchase agreements with 40 financial institutions located throughout North America, Europe and Asia, including counterparties accessed through Bethesda Securities. As of June 30, 2017, our maximum amount at risk with any counterparty related to our repurchase agreements was less than 5% of our stockholders' equity, and our top five repo counterparties represented less than 11% of our stockholders' equity. The table below includes a summary of our repurchase agreement funding by number of repo counterparties and counterparty region as of June 30, 2017. For further details regarding

45

our borrowings under repurchase agreements and concentration of credit risk as of June 30, 2017, please refer to Notes 5 and 7 to our Consolidated Financial Statements in this Form 10-Q.

| June 30, 2017 | | |
|----------------------|---------------------------|---|
| Counter-Party Region | Number of Counter-Parties | Percent of Repurchase Agreement Funding |
| North America | 22 | 72% |
| Europe | 13 | 18% |
| Asia | 5 | 10% |
| | 40 | 100% |

Amounts available to be borrowed under our repurchase agreements are dependent upon lender collateral requirements and the lender's determination of the fair value of the securities pledged as collateral, which fluctuates with changes in interest rates, credit quality and liquidity conditions within the investment banking, mortgage finance and real estate industries. In addition, our counterparties apply a "haircut" to our pledged collateral, which means our collateral is valued at slightly less than market value. This haircut reflects the underlying risk of the specific collateral and protects our counterparty against a change in its value, but conversely subjects us to counterparty risk and limits the amount we can borrow against our investment securities. Our master repurchase agreements do not specify the haircut; rather haircuts are determined on an individual repurchase transaction basis. Throughout the six months ended June 30, 2017, haircuts on our pledged collateral remained stable and, as of June 30, 2017, our weighted average haircut was approximately 4.7% of the value of our collateral, inclusive of collateral funded through Bethesda Securities.

Under our repurchase agreements, we may be required to pledge additional assets to the repurchase agreement counterparties in the event the estimated fair value of the existing pledged collateral under such agreements declines and such counterparties demand additional collateral (a "margin call"), which may take the form of additional securities or cash. Specifically, margin calls would result from a decline in the value of our securities securing our repurchase agreements and prepayments on the mortgages securing such securities. Similarly, if the estimated fair value of our investment securities increases due to changes in interest rates or other factors, counterparties may release collateral back to us. Our repurchase agreements generally provide that the valuations of securities securing our repurchase agreements are to be obtained from a generally recognized source agreed to by the parties. However, in certain circumstances under certain of our repurchase agreements our lenders have the sole discretion to determine their value. In such instances, our lenders are required to act in good faith in making determinations of value. Our repurchase agreements generally provide that in the event of a margin call, we must provide additional securities or cash on the same business day that a margin call is made if the lender provides us notice prior to the margin notice deadline on such day.

As of June 30, 2017, we had met all of our margin requirements and we had unrestricted cash and cash equivalents of \$1.1 billion and unpledged securities of approximately \$2.8 billion, including securities pledged to us and unpledged interests in our consolidated VIEs, available to meet margin calls on our repurchase agreements and other funding liabilities, derivative instruments and for other corporate purposes.

Although we believe we will have adequate sources of liquidity available to us through repurchase agreement financing to execute our business strategy, there can be no assurances that repurchase agreement financing will be available to us upon the maturity of our current repurchase agreements to allow us to renew or replace our repurchase agreement financing on favorable terms or at all. If our repurchase agreement lenders default on their obligations to resell the underlying collateral back to us at the end of the term, we could incur a loss equal to the difference between the value of the collateral and the cash we originally received.

To help manage the adverse impact of interest rate changes on the value of our investment portfolio as well as our cash flows, we utilize an interest rate risk management strategy under which we use derivative financial instruments. In particular, we attempt to mitigate the risk of the cost of our variable rate liabilities increasing at a faster rate than the earnings of our long-term fixed rate assets during a period of rising interest rates. The principal derivative instruments that we use are interest rate swaps, supplemented with the use of interest rate swaptions, U.S. Treasury securities, U.S. Treasury futures contracts, TBA securities and other instruments. Please refer to Notes 3 and 6 to our Consolidated Financial Statements in this Form 10-Q for further details regarding our use of derivative instruments.

Our derivative agreements typically require that we pledge/receive collateral on such agreements to/from our counterparties in a similar manner as we are required to under our repurchase agreements. Our counterparties, or the central clearing agency, typically have the sole discretion to determine the value of the derivative instruments and the value of the collateral securing such instruments. In the event of a margin call, we must provide additional collateral generally on the same or next business day. We minimize counterparty credit risk associated with our derivative instruments by limiting our counterparties to central clearing

exchanges and major financial institutions with acceptable credit ratings and by monitoring positions with individual counterparties. Excluding centrally cleared derivative instruments, as of June 30, 2017, our amount at risk with any counterparty related to our interest rate swap and swaption agreements was less than 1% of our stockholders' equity. In the case of centrally cleared derivative instruments, we could be exposed to credit risk if the central clearing agency or a clearing member defaults on its respective obligation to perform under the contract. However, we believe that the risk is minimal due to the exchanges' initial and daily mark to market margin requirements and clearinghouse guarantee funds and other resources that are available in the event of a clearing member default.

TBA Dollar Roll Transactions

TBA dollar roll transactions represent a form of off-balance sheet financing accounted for as derivative instruments and we may use them as a means of leveraging (or deleveraging) our investment portfolio through the use of long (or short) TBA contracts (see Notes 3 and 6 to our Consolidated Financial Statements in this Form 10-Q).

Under certain market conditions, it may be uneconomical for us to roll our TBA contracts into future months and we may need to take or make physical delivery of the underlying securities. If we were required to take physical delivery to settle a long TBA contract, we would have to fund our total purchase commitment with cash or other financing sources and our liquidity position could be negatively impacted. As of June 30, 2017, we had a net long TBA position with a total market value and a total cost basis of \$17.3 billion and a net carrying value of \$(12) million recognized in derivative assets/(liabilities), at fair value, on our Consolidated Balance Sheets in this Form 10-Q.

Our TBA dollar roll contracts are also subject to margin requirements governed by the Mortgage-Backed Securities Division ("MBSD") of the FICC and by our prime brokerage agreements, which may establish margin levels in excess of the MBSD. Such provisions require that we establish an initial margin based on the notional value of the TBA contract, which is subject to increase if the estimated fair value of our TBA contract or the estimated fair value of our pledged collateral declines. The MBSD has the sole discretion to determine the value of our TBA contracts and of the pledged collateral securing such contracts. In the event of a margin call, we must generally provide additional collateral on the same business day.

Settlement of our TBA obligations by taking delivery of the underlying securities as well as satisfying margin requirements could negatively impact our liquidity position. However, since we do not use TBA dollar roll transactions as our primary source of financing, we believe that we will have adequate sources of liquidity to meet such obligations.

Federal Home Loan Bank Advances

In February 2017, our wholly-owned captive insurance subsidiary's membership to the FHLB of Des Moines was terminated pursuant to the FHFA's final rule on changes to regulations concerning FHLB membership criteria released in January 2016. All of our outstanding FHLB advances were repaid prior to termination.

Bethesda Securities Regulatory Capital Requirements

Bethesda Securities is subject to regulations of the securities business that include but are not limited to trade practices, capital structure, recordkeeping and conduct of directors, officers and employees. As a self-clearing registered broker-dealer, Bethesda Securities is required to maintain minimum net regulatory capital as defined by SEC Rule 15c3-1 (the "Rule"). As of June 30, 2017, the minimum net capital required was \$0.3 million and Bethesda Securities had excess net capital of \$200.6 million. Regulatory capital in excess of the minimum required by the Rule is held to meet levels required by clearing organizations, the clearing bank and other repo counterparties.

Asset Sales and TBA Eligible Securities

We maintain a portfolio of highly liquid mortgage-backed securities. We may sell our Agency securities through the TBA market by delivering them into TBA contracts, subject to "good delivery" provisions promulgated by the Securities Industry and Financial Markets Association ("SIFMA"). We may alternatively sell Agency securities that have more unique attributes on a specified basis when such securities trade at a premium over generic TBA securities or if the securities are not otherwise eligible for TBA delivery. Since the TBA market is the second most liquid market (second to the U.S. Treasury market), maintaining a significant level of Agency securities eligible for TBA delivery enhances our liquidity profile and provides price support for our TBA eligible securities at or above generic TBA

prices. As of June 30, 2017, approximately 88% of our fixed rate Agency RMBS portfolio was eligible for TBA delivery.

47

Equity Capital

To the extent we raise additional equity capital through our at-the-market equity issuance program ("ATM Program") or follow-on equity offerings, or under our dividend reinvestment and direct stock purchase plan, we may use cash proceeds from such transactions to purchase additional investment securities, to make scheduled payments of principal and interest on our funding liabilities and for other general corporate purposes.

During May 2017, we completed a follow-on public offering of 24.5 million shares of our common stock for proceeds of \$503 million, or \$20.53 per common share, net of offering costs. Our Board of Directors has also authorized us to from time-to-time publicly offer and sell shares of our common stock under our ATM Program in an aggregate amount of up to \$750 million of shares of our common stock, subject to U.S. Federal securities laws. As of June 30, 2017, \$750 million remained available for issuance under our ATM Program. There can be no assurance, however, that we will be able to raise additional equity capital at any particular time or on any particular terms. Furthermore, when the trading price of our common stock is significantly less than our estimate of our current tangible net asset value per common share, among other conditions, we may repurchase shares of our common stock, subject to the provisions of our stock repurchase program (see Note 10 to our Consolidated Financial Statements in this Form 10-Q).

OFF-BALANCE SHEET ARRANGEMENTS

As of June 30, 2017, we did not maintain any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance, or special purpose or variable interest entities, established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Furthermore, as of June 30, 2017, we had not guaranteed any obligations of unconsolidated entities or entered into any commitment or intent to provide funding to any such entities.

FORWARD-LOOKING STATEMENTS

This document contains "forward-looking statements" (within the meaning of the Private Securities Litigation Reform Act of 1995) that inherently involve risks and uncertainties. Our actual results and liquidity can differ materially from those anticipated in these forward-looking statements because of changes in the level and composition of our investments and other factors. These factors may include, but are not limited to, changes in general economic conditions, the availability of suitable investments from both an investment return and regulatory perspective, the availability of new investment capital, fluctuations in interest rates and levels of mortgage prepayments, deterioration in credit quality and ratings, the effectiveness of risk management strategies, the impact of leverage, liquidity of secondary markets and credit markets, increases in costs and other general competitive factors.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the exposure to loss resulting from changes in market factors such as interest rates, foreign currency exchange rates, commodity prices and equity prices. The primary market risks that we are exposed to are interest rate, prepayment, spread, liquidity, extension and credit risk.

Interest Rate Risk

Interest rate risk is highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control.

Changes in the general level of interest rates can affect our net interest income, which is the difference between the interest income earned on interest-earning assets and the interest expense incurred in connection with our interest-bearing liabilities, by affecting the spread between our interest-earning assets and interest-bearing liabilities.

Changes in the level of interest rates can also affect the rate of prepayments of our securities and the value of the mortgage securities that constitute our investment portfolio, which affects our net income and ability to realize gains from the sale of these assets and impacts our ability and the amount that we can borrow against these securities.

We utilize a variety of strategies to limit the effects of changes in interest rates on our operations. The principal instruments that we use are interest rate swaps and swaptions. We also utilize U.S. Treasury securities and U.S. Treasury futures contracts, primarily through short sales, as well as TBA contracts. We may also purchase or write put or call options on TBA securities and utilize other types of derivative instruments. Derivative instruments may expose us to certain risks, including the risk that losses on a hedge position will reduce the funds available for payments to holders of our common stock and that the losses may exceed the amount we invested in the instruments.

Our profitability and the value of our investment portfolio (including derivatives used for hedging purposes) may be adversely affected during any period as a result of changing interest rates including changes in the forward yield curve.

Primary measures of an instrument's price sensitivity to interest rate fluctuations are its duration and convexity.

Duration measures the estimated percentage change in market value of our mortgage assets or our hedge portfolio that would be caused by a parallel change in short and long-term interest rates. The duration of our investment portfolio changes with interest rates and tends to increase when interest rates rise and decrease when interest rates fall. This "negative convexity" generally increases the interest rate exposure of our investment portfolio in excess of what is measured by duration alone.

We estimate the duration and convexity of our portfolio using both a third-party risk management system and market data. We review the duration estimates from the third-party model and may make adjustments based on our judgment. These adjustments are intended to better reflect the unique characteristics and market trading conventions associated with certain types of securities.

The table below quantifies the estimated changes in (i) net interest income (including periodic interest costs on our interest rate swaps); (ii) the fair value of our investment portfolio (including derivatives and other securities used for hedging purposes); and (iii) our tangible net asset value as of June 30, 2017 and December 31, 2016 should interest rates go up or down by 50 and 100 basis points, assuming instantaneous parallel shifts in the yield curve and including the impact of both duration and convexity.

All changes in income and value in the table below are measured as percentage changes from the base interest rate scenario. The base interest rate scenario assumes interest rates and prepayment projections as of June 30, 2017 and December 31, 2016. We apply a floor of 0% for the down rate scenarios on our interest bearing liabilities and the variable leg of our interest rate swaps, such that any hypothetical interest rate decrease would have a limited positive impact on our funding costs beyond a certain level.

Actual results could differ materially from estimates, especially in the current market environment. To the extent that these estimates or other assumptions do not hold true, which is likely in a period of high price volatility, actual results will likely differ materially from projections. Moreover, if different models were employed in the analysis, materially different projections could result. Lastly, while the table below reflects the estimated impact of interest rate changes on a static portfolio, we actively manage our portfolio and we continuously make adjustments to the size and composition of our asset and hedge portfolio.

Interest Rate Sensitivity ¹

| Change in Interest Rate | Percentage Change in Projected | | |
|-------------------------|----------------------------------|---------------------------------------|---|
| | Net Interest Income ² | Portfolio Market Value ^{3,4} | Tangible Net Asset Value ^{3,5} |
| As of June 30, 2017 | | | |
| -100 Basis Points | -16.1% | -0.5% | -4.4% |
| -50 Basis Points | -7.1% | 0.0% | 0.0% |
| +50 Basis Points | +2.3% | -0.4% | -3.5% |
| +100 Basis Points | +5.4% | -1.0% | -9.2% |
| As of December 31, 2016 | | | |
| -100 Basis Points | -9.7% | +0.6% | +4.9% |
| -50 Basis Points | -1.8% | +0.5% | +4.4% |
| +50 Basis Points | +4.1% | -0.8% | -6.9% |
| +100 Basis Points | +6.2% | -1.7% | -15.3% |

Interest rate sensitivity is derived from models that are dependent on inputs and assumptions provided by third parties, assumes there are no changes in mortgage spreads and assumes a static portfolio. Actual results could differ materially from these estimates.

Represents the estimated dollar change in net interest income expressed as a percent of net interest income based on asset yields and cost of funds as of such date. It includes the effect of periodic interest costs on our interest rate swaps, but excludes costs associated with our forward starting swaps and other supplemental hedges, such as swaptions and U.S. Treasury securities. Amounts also exclude costs associated with our TBA position and TBA dollar roll income/loss, which are accounted for as derivative instruments in accordance with GAAP. Base case scenario assumes interest rates and forecasted CPR of 9% and 8% as of June 30, 2017 and December 31, 2016, respectively. As of June 30, 2017, rate shock scenarios assume a forecasted CPR of 12%, 10%, 8% and 7% for the -100, -50, +50 and +100 basis points scenarios, respectively. As of December 31, 2016, rate shock scenarios assume a forecasted CPR of 10%, 9%, 7% and 7% for such scenarios, respectively. Estimated dollar change in net interest income does not include the impact of retroactive "catch-up" premium amortization adjustments due to changes in our forecasted CPR. Down rate scenarios assume a floor of 0% for anticipated interest rates.

Includes the effect of derivatives and other securities used for hedging purposes.

Estimated dollar change in investment portfolio value expressed as a percent of the total fair value of our investment portfolio as of such date.

Estimated dollar change in portfolio value expressed as a percent of tangible stockholders' equity, net of the Series A and Series B Preferred Stock liquidation preference, as of such date.

Prepayment Risk

Because residential borrowers have the option to prepay their mortgage loans at par at any time, we face the risk that we will experience a return of principal on our investments faster than anticipated. Various factors affect the rate at which mortgage prepayments occur, including changes in the level of and directional trends in housing prices, interest rates, general economic conditions, loan age and size, loan-to-value ratio, the location of the property and social and demographic conditions. Additionally, changes to GSE underwriting practices or other governmental programs could also significantly impact prepayment rates or expectations. Also, the pace at which the loans underlying our securities become seriously delinquent or are modified and the timing of GSE repurchases of such loans from our securities can materially impact the rate of prepayments. Generally, prepayments on residential mortgage-backed securities increase during periods of falling mortgage interest rates and decrease during periods of rising mortgage interest rates. However, this may not always be the case.

We may reinvest principal repayments at a yield that is lower or higher than the yield on the repaid investment, thus affecting our net interest income by altering the average yield on our assets. We also amortize or accrete premiums and discounts associated with the purchase of mortgage securities into interest income over the projected lives of the

securities, including contractual payments and estimated prepayments using the effective interest method. Our policy for estimating prepayment speeds for calculating the effective yield is to evaluate published prepayment data for similar securities, market consensus and current market conditions. If the actual prepayment experienced differs from our estimate of prepayments, we will be required to make an adjustment to the amortization or accretion of premiums and discounts that would have an impact on future income.

Spread Risk

When the market spread between the yield on our investment securities and benchmark interest rates widens, our net book value could decline if the value of our investment securities fall by more than the offsetting fair value increases on our hedging instruments tied to the underlying benchmark interest rates. We refer to this as "spread risk" or "basis risk." The spread risk associated with our mortgage assets and the resulting fluctuations in fair value of these securities can occur independent of changes in benchmark interest rates and may relate to other factors impacting the mortgage and fixed income markets, such as actual or

anticipated monetary policy actions by the Federal Reserve, market liquidity, or changes in required rates of return on different assets. Consequently, while we use interest rate swaps and other supplemental hedges to attempt to protect against moves in interest rates, such instruments typically will not protect our net book value against spread risk. The table below quantifies the estimated changes in the fair value of our investment portfolio (including derivatives and other securities used for hedging purposes) and in our tangible net asset value as of June 30, 2017 and December 31, 2016 should spreads widen or tighten by 10 and 25 basis points. The estimated impact of changes in spreads is in addition to our interest rate shock sensitivity included in the interest rate shock table above. The table below assumes a spread duration of 5.3 and 5.4 years as of June 30, 2017 and December 31, 2016, respectively, based on interest rates and prices as of such dates. However, our portfolio's sensitivity of mortgage spread changes will vary with changes in interest rates and in the size and composition of our investment portfolio. Therefore, actual results could differ materially from our estimates.

Spread Sensitivity ¹

| Change in MBS Spread | Percentage Change in Projected Portfolio Market Value ^{2,3} | | Tangible Net Asset Value ^{2,4} |
|-------------------------|--|--|--|
| | | | |
| As of June 30, 2017 | | | |
| -25 Basis Points | +1.3% | | +12.3% |
| -10 Basis Points | +0.5% | | +4.9% |
| +10 Basis Points | -0.5% | | -4.9% |
| +25 Basis Points | -1.3% | | -12.3% |
| As of December 31, 2016 | | | |
| -25 Basis Points | +1.3% | | +12.0% |
| -10 Basis Points | +0.5% | | +4.8% |
| +10 Basis Points | -0.5% | | -4.8% |
| +25 Basis Points | -1.3% | | -12.0% |

Spread sensitivity is derived from models that are dependent on inputs and assumptions provided by third parties, 1. assumes there are no changes in interest rates and assumes a static portfolio. Actual results could differ materially from these estimates.

2. Includes the effect of derivatives and other securities used for hedging purposes.

3. Estimated dollar change in investment portfolio value expressed as a percent of the total fair value of our investment portfolio as of such date.

4. Estimated dollar change in portfolio value expressed as a percent of tangible stockholders' equity, net of the Series A and Series B Preferred Stock liquidation preference, as of such date.

Liquidity Risk

The primary liquidity risk for us arises from financing long-term assets with shorter-term borrowings through repurchase agreements and other short-term funding agreements. As of June 30, 2017, we had unrestricted cash and cash equivalents of \$1.1 billion and unpledged securities of approximately \$2.8 billion, including securities pledged to us and unpledged interests in our consolidated VIEs, available to meet margin calls on our funding liabilities and derivative contracts and for other corporate purposes. However, should the value of our collateral or the value of our derivative instruments suddenly decrease, margin calls relating to our funding liabilities and derivative agreements could increase, causing an adverse change in our liquidity position. Furthermore, there is no assurance that we will always be able to renew (or roll) our short-term funding liabilities. In addition, our counterparties have the option to increase our haircuts (margin requirements) on the assets we pledge against our funding liabilities, thereby reducing the amount that can be borrowed against an asset even if they agree to renew or roll such funding liabilities. Significantly higher haircuts can reduce our ability to leverage our portfolio or even force us to sell assets,

especially if correlated with asset price declines or faster prepayment rates on our assets.

In addition, we often utilize TBA dollar roll transactions as a means of investing in and financing Agency RMBS. Under certain economic conditions it may be uneconomical to roll our TBA dollar roll transactions prior to the settlement date and we could have to take physical delivery of the underlying securities and settle our obligations for cash, which could negatively impact our liquidity position, result in defaults or force us to sell assets under adverse conditions.

Extension Risk

The projected weighted-average life and estimated duration, or interest rate sensitivity, of our investments is based on our assumptions regarding the rate at which the borrowers will prepay the underlying mortgage loans. In general, we use interest rate

swaps and swaptions to help manage our funding cost on our investments in the event that interest rates rise. These swaps (or swaptions) allow us to reduce our funding exposure on the notional amount of the swap for a specified period of time by establishing a fixed rate to pay in exchange for receiving a floating rate that generally tracks our financing costs under our funding liabilities.

However, if prepayment rates decrease in a rising interest rate environment, the average life or duration of our fixed rate assets generally extends. This could have a negative impact on our results from operations, as our interest rate swap maturities are fixed and will, therefore, cover a smaller percentage of our funding exposure on our mortgage assets to the extent that their average lives increase due to slower prepayments. This situation may also cause the market value of our fixed rate securities to decline by more than otherwise would be the case while most of our hedging instruments would not receive any incremental offsetting gains. In extreme situations, we may be forced to sell assets to maintain adequate liquidity, which could cause us to incur realized losses.

Credit Risk

We are exposed to credit risk related to our CRT and non-Agency investments, certain derivative transactions, and our collateral held by funding and derivative counterparties. We accept credit exposure at levels we deem prudent as an integral part of our investment and hedging strategy. We seek to manage this risk through prudent asset selection, pre-acquisition due diligence, post-acquisition performance monitoring, sale of assets where we have identified negative credit trends and the use of various types of credit enhancements. We may also use non-recourse financing, which limits our exposure to credit losses to the specific securities subject to the non-recourse financing. Our overall management of credit exposure may also include the use of credit default swaps or other financial derivatives that we believe are appropriate. Additionally, we may vary the percentage mix of our investments or our duration gap, when we believe credit performance is inversely correlated with changes in interest rates, in an effort to actively adjust our credit exposure and to improve the risk/return profile of our investment portfolio.

Our credit risk related to certain derivative transactions is largely mitigated through daily adjustments to collateral pledged based on changes in market value and we limit our counterparties to major financial institutions with acceptable credit ratings. There is no guarantee that our efforts to manage credit risk will be successful and we could suffer losses if credit performance is worse than our expectations or if economic conditions worsen.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act of 1934, as amended (the "Exchange Act") reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based on the definition of "disclosure controls and procedures" as promulgated under the Exchange Act and the rules and regulations thereunder. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

We, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2017. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There have been no changes in our "internal control over financial reporting" (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II.

Item 1. Legal Proceedings

Neither we, nor any of our consolidated subsidiaries, are currently subject to any material litigation nor, to our knowledge, is any litigation threatened against us or any consolidated subsidiary, in each case, that is expected to have a material adverse effect on our business, financial condition or operations. See also "Loss Contingencies" in Note 3 to our Consolidated Financial Statements included in this Form 10-Q.

Item 1A. Risk Factors

There have been no material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits and Financial Statement Schedules

(a) Exhibit Index

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Exhibit No. Description

- *3.1 AGNC Investment Corp. Amended and Restated Certificate of Incorporation, as amended, incorporated herein by reference to Exhibit 3.1 of Form 10-Q for the quarter ended September 30, 2016 (File No. 001-34057), filed November 7, 2016.
- *3.2 AGNC Investment Corp. Third Amended and Restated Bylaws, as amended, incorporated herein by reference to Exhibit 3.2 of Form 10-Q for the quarter ended September 30, 2016 (File No. 001-34057), filed November 7, 2016.
- *3.3 Certificate of Designations of 8.000% Series A Cumulative Redeemable Preferred Stock, incorporated herein by reference to Exhibit 3.1 of Form 8-K (File No 001-34057), filed April 3, 2012.
- *3.4 Certificate of Designations of 7.750% Series B Cumulative Redeemable Preferred Stock, incorporated herein by reference to Exhibit 3.4 of Form 8-A (File No. 001-34057), filed May 7, 2014.
- *4.1 Instruments defining the rights of holders of securities: See Article IV of our Amended and Restated Certificate of Incorporation, as amended, incorporated herein by reference to Exhibit 3.1 of Form 10-Q for the quarter ended September 30, 2016 (File No. 001-34057) filed November 7, 2016.
- *4.2 Instruments defining the rights of holders of securities: See Article VI of our Third Amended and Restated Bylaws, as amended, incorporated herein by reference to Exhibit 3.2 of Form 10-Q for the quarter ended September 30, 2016 (File No. 001-34057) filed November 7, 2016.
- *4.3 Form of Certificate for Common Stock, incorporated herein by reference to Exhibit 4.3 of Form 10-Q for the quarter ended September 30, 2016 (File No. 001-34057), filed November 7, 2016.
- *4.4 Specimen 8.000% Series A Cumulative Redeemable Preferred Stock Certificate, incorporated herein by reference to Exhibit 4.1 of Form 8-K (File No. 001-34057), filed April 3, 2012.
- *4.5 Specimen 7.750% Series B Cumulative Redeemable Preferred Stock Certificate, incorporated herein by reference to Exhibit 4.1 of Form 8-A (File No. 001-34057), filed May 7, 2014.
- *4.6 Deposit Agreement, dated May 8, 2014, among American Capital Agency Corp., Computershare Inc. and Computershare Trust Company, N.A., jointly as depository, incorporated herein by reference to Exhibit 4.2 of Form 8-K (File No. 001-34067), filed May 8, 2014.
- *4.7 Form of Depository Receipt, incorporated herein by reference to Exhibit 4.3 of Form 8-K (File No. 001-34067), filed May 8, 2014.
- 10 Form of AGNC Investment Corp. 2016 Equity and Incentive Compensation Plan Restricted Stock Unit Agreement for Non-Employee Directors, filed herewith.
- 14 AGNC Investment Corp. Code of Ethics and Conduct, adopted, July 20, 2017, filed herewith.
- 31.1 Certification of CEO Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of CFO Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.

32 Certification of CEO and CFO Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS** XBRL Instance Document

101.SCH** XBRL Taxonomy Extension Schema Document

101.CAL** XBRL Taxonomy Extension Calculation Linkbase Document

101.LAB** XBRL Taxonomy Extension Labels Linkbase Document

101.PRE** XBRL Taxonomy Extension Presentation Linkbase Document

101.DEF** XBRL Taxonomy Extension Definition Linkbase Document

* Previously filed

** This exhibit is being furnished rather than filed, and shall not be deemed incorporated by reference into any filing, in accordance with Item 601 of Regulation S-K

(b) Exhibits

See the exhibits filed herewith.

54

(c) Additional financial statement schedules

None.

55

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AGNC INVESTMENT CORP.

By: /s/ GARY KAIN

Gary Kain

Chief Executive Officer, President and

Chief Investment Officer (Principal Executive Officer)

Date: August 3, 2017

/s/ PETER FEDERICO

Peter Federico

Chief Financial Officer and

Executive Vice President (Principal Financial Officer)

Date: August 3, 2017