American Capital Agency Corp
Form 10-Q
May 09, 2014

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

FORM 10-Q

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

For the quarterly period ended March 31, 2014

OR

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

Commission file number 001-34057

AMERICAN CAPITAL AGENCY CORP.
(Exact name of registrant as specified in its charter)

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

2 Bethesda Metro Center, 14th Floor
Bethesda, Maryland 20814
(Address of principal executive offices)
(301) 968-9300
(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 ý 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 ý 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	ý	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller Reporting Company	¨

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

The number of shares of the issuer's common stock, $0.01 par value, outstanding as of April 30, 2014 was 352,788,707.

AMERICAN CAPITAL AGENCY CORP.
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

AMERICAN CAPITAL AGENCY CORP.
CONSOLIDATED BALANCE SHEETS
(in millions, except per share data)

	March 31, 2014 (Unaudited)	December 31, 2013
Assets:		
Agency securities, at fair value (including pledged securities of $51,850 and $62,205, respectively)	$54,960	$64,482
Agency securities transferred to consolidated variable interest entities, at fair value (pledged securities)	1,417	1,459
U.S. Treasury securities, at fair value (including pledged securities of $196 and $3,778, respectively)	196	3,822
REIT equity securities, at fair value	352	237
Cash and cash equivalents	1,726	2,143
Restricted cash	269	101
Derivative assets, at fair value	686	1,194
Receivable for securities sold (including pledged securities of $772 and $622, respectively)	799	652
Receivable under reverse repurchase agreements	6,685	1,881
Other assets	228	284
Total assets	$67,318	$76,255
Liabilities:		
Repurchase agreements	$49,729	$63,533
Debt of consolidated variable interest entities, at fair value	874	910
Payable for securities purchased	324	118
Derivative liabilities, at fair value	417	422
Dividends payable	232	235
Obligation to return securities borrowed under reverse repurchase agreements, at fair value	6,658	1,848
Accounts payable and other accrued liabilities	270	492
Total liabilities	58,504	67,558
Stockholders' equity:		
Preferred stock - $0.01 par value; 10.0 shares authorized:		
8.000% Series A Cumulative Redeemable Preferred Stock; 6.9 shares issued and outstanding (aggregate liquidation preference of $173)	167	167
Common stock - $0.01 par value; 600.0 shares authorized:		
352.8 and 356.2 shares issued and outstanding, respectively	4	4
Additional paid-in capital	10,332	10,406
Retained deficit	(870)	(497)
Accumulated other comprehensive (loss) income	(819)	(1,383)
Total stockholders' equity	8,814	8,697
Total liabilities and stockholders' equity	$67,318	$76,255

See accompanying notes to consolidated financial statements.

AMERICAN CAPITAL AGENCY CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(in millions, except per share data)

	Three months ended March 31,	
	2014	2013
Interest income:		
Interest income	$399	$547
Interest expense	108	140
Net interest income	291	407
Other loss, net:		
Loss on sale of agency securities, net	(19)	(26)
Loss on derivative instruments and other securities, net	(378)	(98)
Total other loss, net	(397)	(124)
Expenses:		
Management fees	29	33
General and administrative expenses	6	9
Total expenses	35	42
Loss (income) before income tax	(141)	241
Provision for income tax, net	—	10
Net loss (income)	(141)	231
Dividend on preferred stock	3	3
Net (loss) income (attributable) available to common shareholders	$(144)	$228
Net (loss) income	$(141)	$231
Other comprehensive income (loss):		
Unrealized gain (loss) on available-for-sale securities, net	521	(837)
Unrealized gain on derivative instruments, net	43	49
Other comprehensive income (loss)	564	(788)
Comprehensive income (loss)	423	(557)
Dividend on preferred stock	3	3
Comprehensive income (loss) available (attributable) to common shareholders	$420	$(560)
Weighted average number of common shares outstanding - basic and diluted	354.8	356.2
Net (loss) income per common share - basic and diluted	$(0.41)	$0.64
Comprehensive income (loss) per common share - basic and diluted	$1.18	$(1.57)
Dividends declared per common share	$0.65	$1.25

See accompanying notes to consolidated financial statements.

AMERICAN CAPITAL AGENCY CORP.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)
(in millions)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained (Deficit) Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount				
Balance, December 31, 2012	6.9	$ 167	338.9	$ 3	$ 9,460	$ (289)	$ 1,555	$ 10,896
Net income	—	—	—	—	—	231	—	231
Other comprehensive (loss) income:								
Unrealized loss on available-for-sale securities, net	—	—	—	—	—	—	(837)	(837)
Unrealized gain on derivative instruments, net	—	—	—	—	—	—	49	49
Issuance of common stock	—	—	57.6	1	1,801	—	—	1,802
Preferred dividends declared	—	—	—	—	—	(3)	—	(3)
Common dividends declared	—	—	—	—	—	(496)	—	(496)
Balance, March 31, 2013	6.9	$ 167	396.5	$ 4	$ 11,261	$ (557)	$ 767	$ 11,642
Balance, December 31, 2013	6.9	$ 167	356.2	$ 4	$ 10,406	$ (497)	$ (1,383)	$ 8,697
Net loss	—	—	—	—	—	(141)	—	(141)
Other comprehensive income:								
Unrealized gain on available-for-sale securities, net	—	—	—	—	—	—	521	521
Unrealized gain on derivative instruments, net	—	—	—	—	—	—	43	43
Repurchase of common stock	—	—	(3.4)	—	(74)	—	—	(74)
Preferred dividends declared	—	—	—	—	—	(3)	—	(3)
Common dividends declared	—	—	—	—	—	(229)	—	(229)
Balance, March 31, 2014	6.9	$ 167	352.8	$ 4	$ 10,332	$ (870)	$ (819)	$ 8,814

See accompanying notes to consolidated financial statements.

AMERICAN CAPITAL AGENCY CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in millions)

	Three months ended March 31, 2014	2013
Operating activities:		
Net (loss) income	$(141)	$231
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of agency securities premiums and discounts, net	142	134
Amortization of accumulated other comprehensive loss on interest rate swaps de-designated as qualifying hedges	43	49
Loss on sale of agency securities, net	19	26
Loss on derivative instruments and other securities, net	378	98
Decrease in other assets	60	19
Decrease in accounts payable and other accrued liabilities	(13)	(39)
Net cash provided by operating activities	488	518
Investing activities:		
Purchases of agency securities	(1,403)	(15,294)
Proceeds from sale of agency securities	9,545	19,568
Principal collections on agency securities	1,853	2,634
Purchases of U.S. Treasury securities	(4,343)	(9,222)
Proceeds from sale of U.S. Treasury securities	12,807	10,001
Net payments on reverse repurchase agreements	(4,804)	(473)
Net proceeds from (payments on) other derivative instruments	58	(329)
Purchases of REIT equity securities	(204)	—
Proceeds from sale of REIT equity securities	86	—
Increase in restricted cash	(168)	(100)
Other investing cash flows, net	(183)	—
Net cash provided by investing activities	13,244	6,785
Financing activities:		
Proceeds from repurchase arrangements	79,314	96,511
Repayments on repurchase agreements	(93,118)	(104,729)
Repayments on debt of consolidated variable interest entities	(36)	(64)
Net proceeds from common stock issuances	—	1,802
Payments for common stock repurchases	(74)	—
Cash dividends paid	(235)	(427)
Net cash used in financing activities	(14,149)	(6,907)
Net change in cash and cash equivalents	(417)	396
Cash and cash equivalents at beginning of period	2,143	2,430
Cash and cash equivalents at end of period	$1,726	$2,826

See accompanying notes to consolidated financial statements.

AMERICAN CAPITAL AGENCY CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Unaudited Interim Consolidated Financial Statements
The unaudited interim consolidated financial statements of American Capital Agency 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 our wholly-owned subsidiary, American Capital Agency TRS, LLC, and variable interest entities for which the Company is 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 are externally managed by American Capital AGNC Management, LLC (our "Manager"), an affiliate of American Capital, Ltd. ("American Capital").
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 all of our annual taxable net income to our stockholders. 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 taxable year.
We earn income primarily from investing on a leveraged basis in agency mortgage-backed securities ("agency MBS"). 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 agency debenture securities issued by Freddie Mac, Fannie Mae or the Federal Home Loan Bank ("FHLB") and in other assets reasonably related to agency securities.
Our principal objective is to preserve our net asset value (also referred to as "net book value", "NAV" and "stockholders' equity") while generating attractive risk-adjusted returns for distribution to our stockholders through regular quarterly dividends from the combination of our net interest income and net realized gains and losses on our investments and hedging activities. We fund our investments primarily through short-term borrowings structured as repurchase agreements.

Note 3. Summary of Significant Accounting Policies
Investment Securities

ASC Topic 320, Investments—Debt and Equity Securities ("ASC 320"), 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. Securities classified as trading and available-for-sale are reported at fair value, while securities classified as held-to-maturity are reported at amortized cost. We may sell any of our agency securities as part of our overall management of our investment portfolio. Accordingly, we typically designate our agency securities as available-for-sale. All securities classified as available-for-sale are reported at fair value, with unrealized gains and losses reported in accumulated other comprehensive income (loss) ("OCI"), a separate component of stockholders' equity. Upon the sale of a security, 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.

Interest-only securities and inverse interest-only securities (collectively referred to as "interest-only securities") represent our right to receive a specified proportion of the contractual interest flows of specific agency CMO securities. Principal-only securities represent our right to receive the contractual principal flows of specific agency CMO securities. Interest and principal-only securities are measured at fair value through earnings in gain (loss) on derivative instruments and other securities, net in our consolidated statements of comprehensive income. Our investments in interest and principal-only securities are included in agency securities, at fair value on the accompanying consolidated balance sheets.

REIT equity securities represent investments in the common stock of other publicly traded mortgage REITs that invest predominantly in agency MBS. We designate our investments in REIT equity securities as trading securities and report them at fair value on the accompanying consolidated balance sheets.

We estimate the fair value of our agency 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. We estimate the fair value of our REIT equity securities on a market approach using "Level 1" inputs based on quoted market prices. Refer to Note 8 for further discussion of fair value measurements.

We evaluate our agency securities 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 exist 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.

If either of the first two conditions exists as of the financial reporting date, the entire amount of the impairment loss, if any, is recognized in earnings as a realized loss and the cost basis of the security is adjusted to its fair value. If the third condition exists, the OTTI is separated into (i) the amount relating to credit loss (the "credit component") and (ii) the amount relating to all other factors (the "non-credit components"). Only the credit component is recognized in earnings, with the non-credit components recognized in OCI. However, in evaluating if the third condition exists, our investments in agency securities typically would not have a credit component since the principal and interest are guaranteed by a GSE and, therefore, any unrealized loss is not the result of a credit loss. In addition, since we designate our agency securities as available-for-sale securities with unrealized gains and losses recognized in OCI, any impairment loss for non-credit components is already recognized in OCI.

The liquidity of the agency securities market allows us to obtain competitive bids and execute on a sale transaction typically within a day of making the decision to sell a security and, therefore, we generally do not make decisions to sell specific agency securities until shortly prior to initiating a sell order. In some instances, we may sell specific agency securities by delivering such securities into existing short to-be-announced ("TBA") contracts. TBA market conventions require the identification of the specific securities to be delivered no later than 48 hours prior to settlement. If we settle a short TBA contract through the delivery of securities, we will generally identify the specific securities to be delivered within one to two days of the 48-hour deadline.

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 investment securities are amortized or accreted into interest income, respectively, over the projected lives of the securities, including contractual payments and estimated prepayments using the interest method in accordance with ASC Subtopic 310-20, Receivables—Nonrefundable Fees and Other Costs ("ASC 310-20").

We estimate long-term prepayment speeds of our agency securities using a third-party service and market data. The third-party service estimates prepayment speeds using models that incorporate the forward yield curve, current mortgage rates and mortgage rates of the outstanding loans, age and size of the outstanding loans, loan-to-value ratios, volatility and other factors. We review the prepayment speeds estimated by the third-party service and compare the results to market consensus prepayment speeds, if available. We also consider historical prepayment speeds and current market conditions to validate the reasonableness of the prepayment speeds estimated by the third-party service and, based on our Manager's judgment, we may make adjustments to its estimates. 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.

Derivative Instruments

We use a variety of derivative instruments to hedge a portion of our exposure to market risks, including interest rate risk, prepayment risk and extension risk. 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 forward contracts for the purchase or sale of agency MBS securities on a generic pool basis, or a TBA contract, and on a non-generic, specified pool basis, and we utilize U.S. Treasury securities and U.S. Treasury futures contracts, primarily through short sales. We may also purchase or write put or call options on TBA securities and we may invest in other types of mortgage derivatives, such as interest and principal-only securities.

We may also 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). Pursuant to 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 also may choose, prior to settlement, to move the settlement of these securities out to a later date by entering into an offsetting short or long 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 the balance sheet 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 derivatives creates exposure to credit risk relating to potential losses that could be recognized in the event that the counterparties to these instruments fail to perform their obligations under the contracts. We attempt to minimize this risk 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 September 30, 2011, we entered into interest rate swap agreements typically with the intention of qualifying for hedge accounting under ASC 815. However, as of September 30, 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 is being reclassified from accumulated OCI into interest expense on a straight-line basis over the remaining term of each interest rate swap.

Interest rate swap agreements

We use interest rate swaps to hedge the variable cash flows associated with borrowings made under our 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 and may be centrally cleared through a registered commodities exchange ("centrally cleared swaps").

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.

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 to help mitigate the potential impact of larger increases or decreases in interest rates on the performance of our investment portfolio (referred to as "convexity risk"). The 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 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 MBS at a predetermined price, face amount, issuer, coupon and stated maturity on an agreed-upon future date. The specific agency MBS 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 may enter into TBA contracts as a means of hedging against short-term changes in interest rates. We may also enter into TBA contracts as a means of acquiring or disposing of agency securities and we may from time to time utilize TBA dollar roll transactions to finance agency MBS 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 MBS securities.

U.S. Treasury securities

We purchase or 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 the balance sheet 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.

Note 4. Investment Securities

As of March 31, 2014, we had agency MBS of $56.4 billion at fair value, with a total cost basis of $56.9 billion. The net unamortized premium balance on our agency MBS as of March 31, 2014 was $2.6 billion, including interest and principal-only strips. The following tables summarize our investments in agency MBS as of March 31, 2014 (dollars in millions):

	March 31, 2014			
Agency MBS	Fannie Mae	Freddie Mac	Ginnie Mae	Total
Available-for-sale agency MBS:				
Agency MBS, par	$42,131	$11,730	$209	$54,070
Unamortized discount	(17)	(6)	—	(23)
Unamortized premium	1,887	573	6	2,466
Amortized cost	44,001	12,297	215	56,513
Gross unrealized gains	238	93	4	335
Gross unrealized losses	(646)	(257)	—	(903)
Total available-for-sale agency MBS, at fair value	43,593	12,133	219	55,945
Agency MBS remeasured at fair value through earnings:				
Interest-only and principal-only strips, amortized cost [1]	386	29	—	415
Gross unrealized gains	20	4	—	24
Gross unrealized losses	(6)	(1)	—	(7)
Total agency MBS remeasured at fair value through earnings	400	32	—	432
Total agency MBS, at fair value	$43,993	$12,165	$219	$56,377
Weighted average coupon as of March 31, 2014 [2]	3.62%	3.75%	3.54%	3.65%
Weighted average yield as of March 31, 2014 [3]	2.70%	2.82%	1.66%	2.72%
Weighted average yield for the quarter ended March 31, 2014 [3]	2.53%	2.61%	1.67%	2.54%

1. The underlying unamortized principal balance ("UPB" or "par value") of our interest-only agency MBS strips was $1.3 billion and the weighted average contractual interest we are entitled to receive was 5.49% of this amount as of March 31, 2014. The par value of our principal-only agency MBS strips was $265 million as of March 31, 2014.
2. The weighted average coupon includes the interest cash flows from our interest-only agency MBS strips taken together with the interest cash flows from our fixed rate, adjustable-rate and CMO agency MBS as a percentage of the par value of our agency MBS (excluding the UPB of our interest-only securities) as of March 31, 2014.
3. Incorporates a weighted average future constant prepayment rate assumption of 8% based on forward rates as of March 31, 2014.

	March 31, 2014			
Agency MBS	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Fixed rate	$54,056	$307	$(902)	$53,461
Adjustable rate	1,176	19	—	1,195
CMO	1,281	9	(1)	1,289
Interest-only and principal-only strips	415	24	(7)	432
Total agency MBS	$56,928	$359	$(910)	$56,377

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As of December 31, 2013, we had agency MBS of $65.9 billion at fair value, with a total cost basis of $67.0 billion. The net unamortized premium balance on our agency MBS as of December 31, 2013 was $3.0 billion, including interest and principal-only strips. The following tables summarize our investments in agency MBS as of December 31, 2013 (dollars in millions):

	December 31, 2013			
Agency MBS	Fannie Mae	Freddie Mac	Ginnie Mae	Total
Available-for-sale agency MBS:				
Agency MBS, par	$50,914	$12,640	$223	$63,777
Unamortized discount	(25)	(7)	—	(32)
Unamortized premium	2,210	631	7	2,848
Amortized cost	53,099	13,264	230	66,593
Gross unrealized gains	181	74	5	260
Gross unrealized losses	(991)	(358)	—	(1,349)
Total available-for-sale agency MBS, at fair value	52,289	12,980	235	65,504
Agency MBS remeasured at fair value through earnings:				
Interest-only and principal-only strips, amortized cost [1]	400	32	—	432
Gross unrealized gains	13	3	—	16
Gross unrealized losses	(9)	(2)	—	(11)
Total agency MBS remeasured at fair value through earnings	404	33	—	437
Total agency MBS, at fair value	$52,693	$13,013	$235	$65,941
Weighted average coupon as of December 31, 2013 [2]	3.53%	3.78%	3.56%	3.58%
Weighted average yield as of December 31, 2013 [3]	2.66%	2.87%	1.66%	2.70%
Weighted average yield for the year ended December 31, 2013 [3]	2.74%	2.87%	1.79%	2.77%

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1. The underlying unamortized principal balance ("UPB" or "par value") of our interest-only agency MBS strips was $1.4 billion and the weighted average contractual interest we are entitled to receive was 5.50% of this amount as of December 31, 2013. The par value of our principal-only agency MBS strips was $271 million as of December 31, 2013.
2. The weighted average coupon includes the interest cash flows from our interest-only agency MBS strips taken together with the interest cash flows from our fixed rate, adjustable-rate and CMO agency MBS as a percentage of the par value of our agency MBS (excluding the UPB of our interest-only securities) as of December 31, 2013.
3. Incorporates a weighted average future constant prepayment rate assumption of 7% based on forward rates as of December 31, 2013.

	December 31, 2013			
Agency MBS	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Fixed rate	$64,057	$242	$(1,338)	$62,961
Adjustable rate	1,223	15	(3)	1,235
CMO	1,313	3	(8)	1,308
Interest-only and principal-only strips	432	16	(11)	437
Total agency MBS	$67,025	$276	$(1,360)	$65,941

The actual maturities of our agency MBS are generally shorter than the stated contractual maturities. Actual maturities are affected by the contractual lives of the underlying mortgages, periodic contractual principal payments and principal prepayments. As of March 31, 2014 and December 31, 2013, our weighted average expected constant prepayment rate ("CPR") over the remaining life of our aggregate agency MBS portfolio was 8% and 7%, respectively. Our estimates differ materially for different types of securities and thus individual holdings have a wide range of projected CPRs. We estimate long-term prepayment assumptions for different securities using a third-party service and market data. The third-party service estimates prepayment speeds using models that incorporate the forward yield curve, current mortgage rates and mortgage rates of the outstanding loans, age and size of the outstanding loans, loan-to-value ratios, volatility and other factors. We review the prepayment speeds estimated by the third-party service and compare the results to market consensus prepayment speeds, if available. We also consider historical prepayment speeds and current market conditions to validate reasonableness. As market conditions may change rapidly, we may make adjustments for different securities based on our Manager's judgment. Various market participants could use materially different assumptions.

The following table summarizes our agency MBS classified as available-for-sale as of March 31, 2014 and December 31, 2013 according to their estimated weighted average life classification (dollars in millions):

	March 31, 2014				December 31, 2013			
Estimated Weighted Average Life of Agency MBS Classified as Available-for-Sale [1]	Fair Value	Amortized Cost	Weighted Average Coupon	Weighted Average Yield	Fair Value	Amortized Cost	Weighted Average Coupon	Weighted Average Yield
≤ 1 year	$27	$25	2.49%	1.81%	$129	$ 129	3.07%	2.53%
> 1 year and ≤ 3 years	191	186	4.86%	3.29%	498	491	4.08%	2.25%
> 3 years and ≤ 5 years	22,947	22,758	3.55%	2.53%	24,471	24,342	3.59%	2.57%
> 5 years and ≤10 years	32,534	33,284	3.51%	2.80%	38,522	39,635	3.39%	2.73%
> 10 years	246	260	3.61%	2.87%	1,884	1,996	3.66%	2.96%
Total	$55,945	$56,513	3.53%	2.70%	$65,504	$ 66,593	3.47%	2.68%

1. Excludes interest and principal-only strips.

The weighted average life of our interest-only strips was 6.2 and 6.3 years as of March 31, 2014 and December 31, 2013, respectively. The weighted average life of our principal-only strips was 8.3 and 8.6 years as of March 31, 2014 and December 31, 2013, respectively.

Our agency securities classified as available-for-sale are reported at fair value, with unrealized gains and losses excluded from earnings and reported in accumulated OCI. The following table summarizes changes in accumulated OCI, a separate component of stockholders' equity, for our available-for-sale securities for the three months ended March 31, 2014 and 2013 (in millions):

Agency Securities Classified as Available-for-Sale	Beginning Accumulated OCI Balance	Unrealized Gains and (Losses), Net	Reversal of Unrealized (Gains) and Losses, Net on Realization	Ending Accumulated OCI Balance
Three months ended March 31, 2014	$(1,087)	502	19	$(566)
Three months ended March 31, 2013	$2,040	(863)	26	$1,203

The following table presents the gross unrealized loss and fair values of our available-for-sale agency securities by length of time that such securities have been in a continuous unrealized loss position as of March 31, 2014 and December 31 and March 31, 2013 (in millions):

	Unrealized Loss Position For					
	Less than 12 Months		12 Months or More		Total	
Agency Securities Classified as Available-for-Sale	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
March 31, 2014	$22,112	$(442)	$8,673	$(461)	$30,785	$(903)
December 31, 2013	$42,853	$(1,248)	$1,586	$(101)	$44,439	$(1,349)
March 31, 2013	$25,963	$(174)	$84	$(2)	$26,047	$(176)

As of March 31, 2014 and 2013, a decision had not been made to sell any of these agency securities and we do not believe it is more likely than not we will be required to sell the agency securities before recovery of their amortized cost basis. The unrealized losses on these agency securities are not due to credit losses given the GSE guarantees, but are rather due to changes in interest rates and prepayment expectations. Accordingly, we did not recognize any OTTI charges on our investment securities for the three months ended March 31, 2014 and 2013. However, as we continue to actively manage our portfolio, we may recognize additional realized losses on our agency securities upon selecting specific securities to sell.

Gains and Losses

The following table is a summary of our net gain (loss) from the sale of agency securities classified as available-for-sale for the three months ended March 31, 2014 and 2013 (in millions):

Agency Securities Classified as Available-for-Sale	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Agency MBS sold, at cost	$(9,711)	$(20,328)
Proceeds from agency MBS sold [1]	9,692	20,302
Net loss on sale of agency MBS	$(19)	$(26)
Gross gain on sale of agency MBS	$42	$87
Gross loss on sale of agency MBS	(61)	(113)
Net loss on sale of agency MBS	$(19)	$(26)

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

For the three months ended March 31, 2014 and 2013, we recognized a net unrealized gain of $12 million and a net unrealized loss of $1 million, respectively, for the change in value of investments in interest and principal-only strips in gain (loss) on derivative instruments and other securities, net in our consolidated statements of comprehensive income. Over the same periods, we did not recognize any realized gains or losses on our interest or principal-only securities.

Securitizations and Variable Interest Entities

As of March 31, 2014 and December 31, 2013, we held investments in CMO trusts, which are 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 MBS. 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 of $1.4 billion and $1.5 billion as of March 31, 2014 and December 31, 2013, respectively, and debt, at fair value, of $874 million and $910 million, respectively, in our accompanying consolidated balance sheets. As of March 31, 2014 and December 31, 2013, such agency securities had an aggregate unpaid principal balance of $1.3 billion and $1.4 billion, respectively, and such debt had an aggregate unpaid principal balance of $863 million and $900 million, respectively. 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. For the three months ended March 31, 2014 and 2013, we recognized a net loss of $(3) million and a net gain of $13 million in earnings, respectively, associated with our consolidated debt. 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 March 31, 2014 and December 31, 2013, the fair value of our CMO securities and interest and principal-only securities was $1.7 billion, excluding the consolidated CMO trusts discussed above, or $2.3 billion 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 $265 million and $246 million as of March 31, 2014 and December 31, 2013, respectively.

Note 5. Repurchase Agreements and Other Debt

We pledge certain of our securities as collateral under repurchase arrangements with financial institutions, the terms and conditions of which are negotiated on a transaction-by-transaction basis (see Note 7). Interest rates on these 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 March 31, 2014, we have met all margin call requirements.
The following table summarizes our borrowings under repurchase arrangements and weighted average interest rates classified by remaining maturities as of March 31, 2014 and December 31, 2013 (dollars in millions):

	March 31, 2014				December 31, 2013			
Remaining Maturity	Repurchase Agreements	Weighted Average Interest Rate		Weighted Average Days to Maturity	Repurchase Agreements	Weighted Average Interest Rate		Weighted Average Days to Maturity
Agency MBS:								
≤ 1 month	$13,440	0.37	%	15	$23,577	0.42	%	15
> 1 to ≤ 3 months	17,396	0.38	%	54	20,490	0.43	%	61
> 3 to ≤ 6 months	5,242	0.45	%	137	6,946	0.45	%	140
> 6 to ≤ 9 months	4,560	0.51	%	232	2,232	0.53	%	230
> 9 to ≤ 12 months	4,171	0.49	%	326	3,607	0.54	%	323
> 12 to ≤ 24 months	3,232	0.57	%	517	3,261	0.60	%	603
> 24 to ≤ 36 months	540	0.61	%	876	500	0.62	%	930
> 36 months	999	0.66	%	1,599	602	0.68	%	1,468
Total agency MBS	49,580	0.43	%	162	61,215	0.45	%	124
U.S. Treasury securities:								
1 day	149	0.05	%	1	2,318	0.02	%	1
Total / Weighted Average	$49,729	0.43	%	161	$63,533	0.44	%	119

As of March 31, 2014 and December 31, 2013, debt of consolidated VIEs, at fair value ("other debt") was $874 million and $910 million, respectively. As of March 31, 2014 and December 31, 2013, our other debt had a weighted average interest rate of LIBOR plus 43 and 42 basis points and a principal balance of $863 million and $900 million, respectively. The actual maturities of our other debt are generally shorter than the stated contractual maturities. The actual maturities are affected by the contractual lives of the underlying agency MBS securitizing our other debt and periodic principal prepayments of such underlying securities. The estimated weighted average life of our other debt as of March 31, 2014 was 6.5 years.
As of March 31, 2014 and December 31, 2013, we also had outstanding forward commitments to purchase and sell agency securities through the TBA market (see Notes 3 and 6). These transactions, also referred to as TBA dollar roll transactions, represent a form of off-balance sheet financing and serve to either increase, in the case of forward purchases, or decrease, in the case of forward sales, our "at risk" leverage. However, pursuant to ASC 815, we typically account for such transactions as one or more series of derivative transactions and, consequently, they are not included in our on-balance sheet debt or measurement of commensurate leverage ratios.

Note 6. Derivative and Other Hedging Instruments
In connection with our risk management strategy, we hedge a portion of our interest rate risk by entering into derivative and other hedging instrument contracts. We typically enter into agreements for interest rate swaps and interest rate swaptions. We may also purchase or short TBA and U.S. Treasury securities, purchase or write put or call options on TBA securities or we may invest in other types of mortgage derivative securities, such as interest and principal-only securities. Our risk management strategy attempts to manage the overall risk of the portfolio, reduce fluctuations in book value and generate additional income distributable to stockholders. 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.
Prior to September 30, 2011, our interest rate swaps were typically designated as cash flow hedges under ASC 815; however, as of September 30, 2011, we elected to discontinue hedge accounting for our interest rate swaps in order to increase our funding flexibility. For the three months ended March 31, 2014 and 2013, we reclassified $43 million and

$49 million, respectively, of net deferred losses from accumulated OCI into interest expense related to our de-designated interest rate swaps and recognized an equal, but offsetting, amount in other comprehensive income. Our total net periodic interest costs on our swap portfolio for these periods were $126 million and $133 million, respectively. The difference of $83 million and $84 million for these periods, respectively, is reported in our accompanying consolidated statements of comprehensive income in gain (loss) on derivative instruments and other securities, net. As of March 31, 2014, the remaining net deferred loss in accumulated OCI related to de-designated interest rate swaps was $253 million and will be reclassified from OCI into interest expense over a remaining weighted average period of 1.9 years. As of March 31, 2014, the net deferred loss expected to be reclassified from OCI into interest expense over the next twelve months was $143 million.

Derivative Assets (Liabilities), at Fair Value

The table below summarizes fair value information about our derivative assets and liabilities as of March 31, 2014 and December 31, 2013 (in millions):

Derivatives Instruments	Balance Sheet Location	March 31, 2014	December 31, 2013
Interest rate swaps	Derivative assets, at fair value	$560	$ 880
Swaptions	Derivative assets, at fair value	96	258
TBA securities	Derivative assets, at fair value	24	17
U.S. Treasury futures - short	Derivative assets, at fair value	6	39
		$686	$ 1,194
Interest rate swaps	Derivative liabilities, at fair value	$(368)	$(400)
TBA securities	Derivative liabilities, at fair value	(49)	(22)
		$(417)	$(422)

Additionally, as of March 31, 2014 and December 31, 2013, we had obligations to return U.S. Treasury securities borrowed under reverse repurchase agreements accounted for as securities borrowing transactions at a fair value of $6.7 billion and $1.8 billion, respectively. The borrowed securities were used to cover short sales of U.S. Treasury securities from which we received total proceeds of $6.7 billion and $1.9 billion, respectively. The change in fair value of the borrowed securities is recorded in gain (loss) on derivative instruments and other securities, net in our consolidated statements of comprehensive income.

The following tables summarize our interest rate swap agreements outstanding as of March 31, 2014 and December 31, 2013 (dollars in millions):

	March 31, 2014				
Payer Interest Rate Swaps	Notional Amount [1]	Average Fixed Pay Rate [2]	Average Receive Rate [3]	Net Estimated Fair Value	Average Maturity (Years) [4]
≤ 3 years	$16,650	1.55 %	0.18 %	$(327)	1.4
> 3 to ≤ 5 years	10,575	1.29 %	0.24 %	78	4.0
> 5 to ≤ 7 years	6,250	2.09 %	0.25 %	66	5.9
> 7 to ≤ 10 years	10,175	2.51 %	0.24 %	287	8.5
> 10 years	2,750	3.17 %	0.24 %	88	14.1
Total Payer Interest Rate Swaps	$46,400	1.87 %	0.21 %	$192	4.9

1. Notional amount includes forward starting swaps of $9.5 billion with an average forward start date of 1.9 years from March 31, 2014.
2. Average fixed pay rate includes forward starting swaps. Excluding forward starting swaps, the average fixed pay rate was 1.57% as of March 31, 2014.
3. Average receive rate excludes forward starting swaps.
4. Average maturity measured from March 31, 2014 through stated maturity date.

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Payer Interest Rate Swaps [1]	December 31, 2013 Notional Amount	Average Fixed Pay Rate	Average Receive Rate	Net Estimated Fair Value	Average Maturity (Years)
≤ 3 years	$16,750	1.57%	0.19%	$(382)	1.6
> 3 to ≤ 5 years	10,225	1.07%	0.24%	81	3.9
> 5 to ≤ 7 years	5,700	1.97%	0.26%	113	6.0
> 7 to ≤ 10 years	8,825	2.28%	0.24%	499	8.8
> 10 years	1,750	2.79%	0.24%	169	14.7
Total Payer Interest Rate Swaps	$43,250	1.70%	0.22%	$480	4.7

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1. Notional amount includes forward starting swaps of $4.0 billion with an average forward start date of 1.9 years from December 31, 2013.
2. Average fixed pay rate includes forward starting swaps. Excluding forward starting swaps, the average fixed pay rate was 1.57% as of December 31, 2013.
3. Average receive rate excludes forward starting swaps.
4. Average maturity measured from December 31, 2013 through stated maturity date.

The following tables summarize our interest rate swaption agreements outstanding as of March 31, 2014 and December 31, 2013 (dollars in millions):

	March 31, 2014 Option			Underlying Payer Swap			
Years to Expiration	Cost	Fair Value	Average Months to Expiration	Notional Amount	Average Fixed Pay Rate	Average Receive Rate (LIBOR)	Average Term (Years)
Payer Swaptions							
≤ 1 year	$111	$44	5	$4,650	2.98%	3M	6.4
> 1 to ≤ 2 years	60	34	18	2,450	3.55%	3M	4.5
> 2 to ≤ 3 years	23	15	28	900	3.99%	3M	5.4
Total Payer Swaptions	$194	$93	12	$8,000	3.27%	3M	5.7

	March 31, 2014 Option			Underlying Receiver Swap			
	Cost	Fair Value	Average Months to Expiration	Notional Amount	Average Fixed Receive Rate	Average Pay Rate (LIBOR)	Average Term (Years)
Receiver Swaption	$3	$3	12	$1,000	2.26%	3M	10.0

	December 31, 2013 Option			Underlying Payer Swap			
Years to Expiration	Cost	Fair Value	Average Months to Expiration	Notional Amount	Average Fixed Pay Rate	Average Receive Rate (LIBOR)	Average Term (Years)
Payer Swaptions							
≤ 1 year	$193	$117	4	$9,400	2.87%	3M	7.8
> 1 to ≤ 2 years	105	92	19	3,600	3.40%	3M	5.6
> 2 to ≤ 3 years	35	45	30	1,150	3.81%	3M	5.8
> 3 to ≤ 5 years	2	4	52	100	4.80%	3M	7.0
	$335	$258	10	$14,250	3.09%	3M	7.0

Total Payer
Swaptions

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We did not have any receiver swaptions as of December 31, 2013.

The following table summarizes our contracts to purchase and sell TBA contracts as of March 31, 2014 and December 31, 2013 (in millions):

	March 31, 2014				December 31, 2013			
Purchase and Sale Contracts for TBAs	Notional Amount [1]	Cost Basis [2]	Market Value [3]	Net Carrying Value [4]	Notional Amount [1]	Cost Basis [2]	Market Value [3]	Net Carrying Value [4]
TBA securities:								
Purchase contracts	$17,699	$18,136	$18,095	$(41)	$6,660	$6,882	$6,864	$(18)
Sale contracts	(3,790)	(4,009)	(3,993)	16	(4,541)	(4,606)	(4,593)	13
TBA securities, net [5]	$13,909	$14,127	$14,102	$(25)	$2,119	$2,276	$2,271	$(5)

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.
5. Includes 15-year and 30-year TBA securities of varying coupons

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

The tables below summarize the effect of our derivative and other hedging instruments on our consolidated statements of comprehensive income for the three months ended March 31, 2014 and 2013 (in millions):

	Three Months Ended March 31, 2014				
Derivative and Other Hedging Instruments	Notional Amount Long/(Short) December 31, 2013	Additions	Settlement, Termination, Expiration or Exercise	Notional Amount Long/(Short) March 31, 2014	Amount of Gain/(Loss) Recognized in Income on Derivatives [1]
Net TBA securities	$2,119	24,376	(12,586)	$13,909	$ 60
Interest rate swaps	$(43,250)	(5,900)	2,750	$(46,400)	(380)
Payer swaptions, net	$(14,250)	(1,000)	7,250	$(8,000)	(105)
Receiver swaption	$—	1,000	—	$1,000	—
U.S. Treasury securities - short position	$(2,007)	(7,241)	2,462	$(6,786)	(45)
U.S. Treasury securities - long position	$3,927	1,900	(5,627)	$200	72
U.S. Treasury futures contracts - short position	$(1,730)	(730)	1,730	$(730)	(36)
TBA put option	$—	(50)	50	$—	—
					$ (434)

1. Excludes a net gain of $49 million from investments in REIT equity securities, a net loss of $3 million from debt of consolidated VIEs, a net gain of$12 million on interest and principal-only securities and other miscellaneous net losses of $2 million recognized in gain (loss) on derivative instruments and other securities, net in our consolidated statements of comprehensive income.

	Three Months Ended March 31, 2013				
Derivative and Other Hedging Instruments	Notional Amount Long/(Short) December 31,	Additions	Settlement, Termination, Expiration or Exercise	Notional Amount Long/(Short) March 31,	Amount of Gain/(Loss) Recognized in Income on

	2012			2013	Derivatives [1]
Net TBA and forward settling agency securities	$12,477	43,267	(29,476)	$26,268	$(102)
Interest rate swaps	$(46,850)	(5,750)	1,350	$(51,250)	54
Payer swaptions	$(14,450)	(11,150)	2,700	$(22,900)	(44)
U.S. Treasury securities - short position	$(11,835)	(9,935)	9,210	$(12,560)	(3)
U.S. Treasury futures contracts - short position	$—	(800)	—	$(800)	(15)
					$(110)

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1. Excludes a net loss of $1 million on interest and principal-only securities and a net gain of $13 million from debt of consolidated VIEs recognized in gain (loss) on derivative instruments and other securities, net in our consolidated statements of comprehensive income.

Note 7. Pledged Assets

Our repurchase agreements and derivative contracts 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. In addition, obligations under our derivative agreements will typically vary over time based on similar factors as well as the remaining term of the derivative contract. We are also typically required to post initial collateral upon execution of derivative transactions, such as interest rate swaps and TBA contracts. If we breach any of these provisions, we will be required to fully settle our obligations under the agreements, which could include a forced liquidation of our pledged collateral.

Our repurchase agreement and derivative 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, the use of repurchase agreements and derivative instruments exposes 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 repurchase agreement and derivative counterparties to major financial institutions with acceptable credit ratings or to a registered clearinghouse, 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 clearing exchange 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 a certain threshold causes an event of default under the 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 above certain specified levels. As of March 31, 2014, 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 March 31, 2014, our amount at risk with any counterparty related to our repurchase agreements was less than 4% of our stockholders' equity and our 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.

Assets Pledged to Counterparties

The following tables summarize our assets pledged as collateral under our repurchase agreements, debt of consolidated VIEs, derivative agreements and prime broker agreements by type, including securities pledged related to securities sold but not yet settled, as of March 31, 2014 and December 31, 2013 (in millions):

	March 31, 2014				
Assets Pledged to Counterparties	Repurchase Agreements	Debt of Consolidated VIEs	Derivative Agreements	Prime Broker Agreements	Total
Agency MBS - fair value	$52,047	$1,417	$56	$519	$54,039

U.S. Treasury securities - fair value	125	—	71	—	196
Accrued interest on pledged securities	146	4	—	1	151
Restricted cash	1	—	224	44	269
Total	$52,319	$1,421	$351	$564	$54,655

Assets Pledged to Counterparties	December 31, 2013 Repurchase Agreements	Debt of Consolidated VIEs	Derivative Agreements	Prime Broker Agreements	Total
Agency MBS - fair value	$62,708	$1,459	$28	$91	$64,286
U.S. Treasury securities - fair value	3,708	—	70	—	3,778
Accrued interest on pledged securities	189	5	1	—	195
Restricted cash	3	—	41	57	101
Total	$66,608	$1,464	$140	$148	$68,360

The cash and cash equivalents and agency securities pledged as collateral under our derivative agreements are included in restricted cash and agency securities, at fair value, respectively, on our consolidated balance sheets.
The following table summarizes our securities pledged as collateral under repurchase agreements and debt of consolidated VIEs by remaining maturity, including securities pledged related to sold but not yet settled securities, as of March 31, 2014 and 2013 (in millions):

Agency Securities Pledged by Remaining Maturity of Repurchase Agreements and Debt of Consolidated VIEs	March 31, 2014 Fair Value of Pledged Securities	Amortized Cost of Pledged Securities	Accrued Interest on Pledged Securities	December 31, 2013 Fair Value of Pledged Securities	Amortized Cost of Pledged Securities	Accrued Interest on Pledged Securities
Agency MBS:						
≤ 30 days	$17,683	$17,858	$49	$27,694	$28,125	$76
> 30 and ≤ 60 days	15,881	16,024	44	14,955	15,210	42
> 60 and ≤ 90 days	5,585	5,630	16	10,117	10,290	28
> 90 days	14,315	14,519	41	11,401	11,623	32
Total agency MBS	53,464	54,031	150	64,167	65,248	178
U.S. Treasury securities:						
1 day	125	125	—	3,708	3,760	16
Total	$53,589	$54,156	$150	$67,875	$69,008	$194

As of March 31, 2014 and December 31, 2013, none of our repurchase agreement borrowings backed by agency MBS were due on demand or mature overnight.
Assets Pledged from Counterparties
As of March 31, 2014 and December 31, 2013, we also had assets pledged to us as collateral under our repurchase, reverse repurchase and derivative agreements summarized in the tables below (in millions).

Assets Pledged to AGNC	March 31, 2014 Repurchase Agreements	Reverse Repurchase Agreements	Derivative Agreements	Total
Agency MBS - fair value	$—	$—	$17	$17
U.S. Treasury securities - fair value	—	6,658	56	6,714
Cash	16	—	167	183
Total	$16	$6,658	$240	$6,914

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	December 31, 2013			
Assets Pledged to AGNC	Repurchase Agreements	Reverse Repurchase Agreements	Derivative Agreements	Total
Agency MBS - fair value	$—	$—	$82	$82
U.S. Treasury securities - fair value	—	1,848	164	2,012
Cash	—	—	366	366
Total	$—	$1,848	$612	$2,460

U.S Treasury securities received as collateral under our reverse repurchase agreements are accounted for as securities borrowing transactions and are used to cover short sales of the same securities. 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 such arrangements and can potentially be offset on our consolidated balance sheets as of March 31, 2014 and December 31, 2013 (in millions):

Offsetting of Financial Assets 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 Not Offset in the Consolidated Balance Sheets		Net Amount
				Financial Instruments	Collateral Received [2]	
March 31, 2014						
Interest rate swap and swaption agreements, at fair value [1]	$656	$ —	$ 656	$(287)	$(240)	$129
Receivable under reverse repurchase agreements	6,685	—	6,685	(4,773)	(1,912)	—
Total derivative, other hedging instruments and other assets	$7,341	$ —	$ 7,341	$(5,060)	$(2,152)	$129
December 31, 2013						
Interest rate swap and swaption agreements, at fair value [1]	$1,138	$ —	$ 1,138	$(331)	$(610)	$197
Receivable under reverse repurchase agreements	1,881	—	1,881	(1,881)	—	—
Total derivative, other hedging instruments and other assets	$3,019	$ —	$ 3,019	$(2,212)	$(610)	$197

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	Offsetting of Financial Liabilities 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 Not Offset in the Consolidated Balance Sheets		Net Amount
				Financial Instruments	Collateral Pledged [2]	
March 31, 2014						
Interest rate swap agreements, at fair value [1]	$368	$ —	$ 368	$(288)	$(80)	$—
Repurchase agreements	49,729	—	49,729	(4,773)	(44,806)	150
Total derivative, other hedging instruments and other liabilities	$50,097	$ —	$ 50,097	$(5,061)	$(44,886)	$150
December 31, 2013						
Interest rate swap agreements, at fair value [1]	$400	$ —	$ 400	$(331)	$(69)	$—
Repurchase agreements	63,533	—	63,533	(1,881)	(61,652)	—
Total derivative, other hedging instruments and other liabilities	$63,933	$ —	$ 63,933	$(2,212)	$(61,721)	$—

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 received / pledged 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. Refer to Note 4 for additional information regarding assets pledged as collateral.

Note 8. Fair Value Measurements

We determine the fair value of our agency 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 further information regarding valuation of our derivative instruments, please refer to the discussion of derivative and other hedging instruments in Note 3.

We review the various third party fair value estimates and perform procedures to validate their reasonableness, including an analysis of the range of third party estimates for each position, comparison to recent trade activity for similar securities, and management review 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 determination of fair value if we determine (based on our validation procedures and our market knowledge and expertise) that the price is significantly different than 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 hierarchy levels during the three months ended March 31, 2014. The three levels of 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 March 31, 2014 and December 31, 2013 (dollars in millions):

	Fair Value Hierarchy		
	Level 1	Level 2	Level 3
March 31, 2014			
Assets:			
Agency securities	$—	$56,377	$—
U.S. Treasury securities	196	—	—
Interest rate swaps	—	560	—
Payer swaptions	—	96	—
REIT equity securities	352	—	
U.S. Treasury futures	6	—	—
TBA securities	—	24	—
Total	$554	$57,057	$—
Liabilities:			
Debt of consolidated VIEs	$—	$874	$—
Obligation to return U.S. Treasury securities borrowed under reverse repurchase agreements	6,658	—	—
Interest rate swaps	—	368	—
TBA securities	—	49	—
Total	$6,658	$1,291	$—
December 31, 2013			
Assets:			
Agency securities	$—	$65,941	$—
U.S. Treasury securities	3,822	—	—
Interest rate swaps	—	880	—
Payer swaptions	—	258	—
REIT equity securities	237	—	—
U.S. Treasury futures	39	—	—
TBA securities	—	17	—
Total	$4,098	$67,096	$—
Liabilities:			
Debt of consolidated VIEs	$—	$910	$—
Obligation to return U.S. Treasury securities borrowed under reverse repurchase agreements	1,848	—	—
Interest rate swaps	—	400	—
TBA securities	—	22	—
Total	$1,848	$1,332	$—

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 a market approach using Level 2 inputs from third-party pricing services and dealer quotes.

Note 9. Stockholders' Equity

Common Stock Repurchase Program

In October 2012, our Board of Directors adopted a program that provides for stock repurchases of up to $500 million of our outstanding shares of common stock through December 31, 2013. In September 2013, our Board of Directors increased the authorized amount to $1 billion of our outstanding shares of common stock and extended its authorization through December 31, 2014. In January 2014, our Board of Directors increased the authorized amount by an additional $1 billion of our outstanding shares of common stock through December 31, 2014. Shares of our common stock may be purchased in the open market, including through block purchases, or through privately negotiated transactions, or pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended. The timing, manner, price and amount of any repurchases will be determined at our discretion and the program may be suspended, terminated or modified at any time for any reason. We intend to repurchase shares only when the purchase price is less than our estimate of our current net asset value per share of our common stock. Generally, when we repurchase our common stock at a discount to our net asset value, the net asset value of our remaining shares of common stock outstanding increases. In addition, we do not intend to repurchase any shares from directors, officers or other affiliates. The program does not obligate us to acquire any specific number of shares, and all repurchases will be made in accordance with Rule 10b-18, which sets certain restrictions on the method, timing, price and volume of stock repurchases.

During the three months ended March 31, 2014, we repurchased approximately 3.4 million shares of our common stock at an average repurchase price of $22.10 per share, including expenses, totaling $74 million. As of March 31, 2014, the total remaining amount authorized for repurchases of our common stock was $992 million.

Accumulated Other Comprehensive Income (Loss)

The following table summarizes changes to accumulated OCI for the three months ended March 31, 2014 and 2013 (in millions):

Accumulated Other Comprehensive (Loss) Income	Net Unrealized Gain (Loss) on Available-for-Sale MBS	Net Unrealized Gain (Loss) on Swaps	Total Accumulated OCI Balance
Balance as of December 31, 2013	$ (1,087)	$(296)	$(1,383)
OCI before reclassifications	502	—	502
Amounts reclassified from accumulated OCI	19	43	62
Balance as of March 31, 2014	$ (566)	$(253)	$(819)
Balance as of December 31, 2012	$ 2,040	$(485)	$1,555
OCI before reclassifications	(863)	—	(863)
Amounts reclassified from accumulated OCI	26	49	75
Balance as of March 31, 2013	$ 1,203	$(436)	$767

The following table summarizes reclassifications out of accumulated OCI for the three months ended March 31, 2014 and 2013 (in millions):

Amounts Reclassified from Accumulated OCI	Three Months Ended March 31, 2014	2013	Line Item in the Consolidated Statements of Comprehensive Income Where Net Income is Presented
Loss amounts reclassified from accumulated OCI for available-for-sale MBS	$19	$26	Gain (loss) on sale of agency securities, net
Periodic interest costs of interest rate swaps previously designated as hedges under GAAP, net	43	49	Interest expense
Total reclassifications	$62	$75	

Note 10. Subsequent Event
On May 8, 2014, we completed a public offering in which 7.0 million depository shares with a liquidation preference of $25.00 per depositary share were sold to the underwriters at a price of $24.2125 per depository share, for proceeds, net of offering expenses, of approximately $169 million. Each depositary share represents a 1/1,000th interest in a share of our 7.750% Series B Cumulative Redeemable Preferred Stock ("Series B Preferred Stock"). In connection with the offering, we granted the underwriters an option for 30 days to purchase up to an additional 1.05 million depositary shares to cover overallotments, if any. Our Series B Preferred Stock has no stated maturity, is not subject to any sinking fund or mandatory redemption and ranks on parity with our 8.000% Series A Cumulative Redeemable Preferred Stock. Under certain circumstances upon a change of control, our Series B Preferred Stock is convertible to shares of our common stock. Holders of depositary shares have no voting rights, except under limited conditions, and are entitled to receive cumulative cash dividends at a rate of 7.750% per annum of the $25.00 per depository share liquidation preference before holders of our common stock are entitled to receive any dividends. Dividends are payable quarterly in arrears on the 15th day of each January, April, July and October. Depositary shares are redeemable at $25.00 per depository share plus accumulated and unpaid dividends (whether or not declared) exclusively at our option commencing on May 8, 2019, or earlier under certain circumstances intended to preserve our qualification as a REIT for federal income tax purposes.

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 American Capital Agency Corp.'s consolidated financial statements with a narrative from the perspective of management. Our MD&A is presented in five sections:
- Executive Overview
- Financial Condition
- Results of Operations
- Liquidity and Capital Resources
- Forward-Looking Statements

EXECUTIVE OVERVIEW
American Capital Agency Corp. ("AGNC", the "Company", "we", "us" and "our") 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 under the symbol "AGNC." We are externally managed by American Capital AGNC Management, LLC (our "Manager"), an affiliate of American Capital, Ltd. ("American Capital").
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 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 annual taxable net income to our stockholders. 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 taxable year.
We earn income primarily from investing on a leveraged basis in agency mortgage-backed securities ("agency MBS"). 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 agency debenture securities issued by Freddie Mac, Fannie Mae or the Federal Home Loan Bank and in other assets reasonably related to agency securities.
Our principal objective is to preserve our net book value (also referred to as "net asset value", "NAV" and "stockholders' equity") while generating attractive risk-adjusted returns for distribution to our stockholders through

regular quarterly dividends from the combination of our net interest income and net realized gains and losses on our investments and hedging activities. We fund our investments primarily through borrowings structured as repurchase agreements.

Our Investment Strategy

Our investment strategy is designed to:

- manage an investment portfolio consisting primarily of agency securities and assets reasonably related to agency securities that seeks to generate attractive risk-adjusted returns;
- capitalize on discrepancies in the relative valuations in the agency securities market;
- manage financing, interest rate, prepayment and extension risks;
- preserve our net book value;
- provide regular quarterly distributions to our stockholders;
- continue to qualify as a REIT; and
- remain exempt from the requirements of the Investment Company Act of 1940, as amended (the "Investment Company Act").

The size and composition of our investment portfolio depends on investment strategies implemented by our Manager, 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 of 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, evolving regulations or legal settlements that impact servicing practices or other mortgage related activities.

Our Risk Management Strategy

We use a variety of strategies to hedge a portion of our exposure to market risks, including interest rate, prepayment and extension risks, to the extent that our Manager believes is prudent, taking into account our investment strategy, the cost of the hedging transactions and our intention to qualify as a REIT. As a result, we may not hedge certain interest rate, prepayment or extension risks if our Manager believes that bearing such risks enhances our return relative to our risk/return profile, or the hedging transaction would negatively impact our REIT status.

- Interest Rate Risk. We hedge a portion of our exposure to potential interest rate mismatches between the interest we earn on our longer term investments and the interest we pay on our shorter term borrowings. Because a majority of our funding is in the form of repurchase agreements, our financing costs fluctuate based on short-term interest rate indices, such as LIBOR. Because our investments are assets that primarily have fixed rates of interest and could mature in up to 40 years, the interest we earn on those assets generally does not move in tandem with the interest that we pay on our repurchase agreements; therefore, we may experience reduced income or losses due to adverse rate movements. In order to attempt to mitigate a portion of such risk, we utilize certain hedging techniques to attempt to lock in a portion of the net interest spread between the interest we earn on our assets and the interest we pay on our financing costs.

Additionally, because prepayments on residential mortgages generally accelerate when interest rates decrease and slow when interest rates increase, mortgage securities typically have "negative convexity." In other words, certain mortgage securities in which we invest may increase in price more slowly than similar duration bonds, or even fall in value, as interest rates decline. Conversely, certain mortgage securities in which we invest may decrease in value more quickly than similar duration bonds as interest rates increase. In order to manage this risk, we monitor, among other things, the "duration gap" between our mortgage assets and our hedge portfolio as well as our convexity exposure. Duration is 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. Convexity exposure relates to the way the duration of our mortgage assets or our hedge portfolio changes when the interest rate or prepayment environment changes.

The value of our mortgage assets may also be adversely impacted by fluctuations in the shape of the yield curve or by changes in the market's expectation about the volatility of future interest rates. We analyze our exposure to non-parallel changes in interest rates and to changes in the market's expectation of future interest rate volatility and take actions to attempt to mitigate these risks.

- 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. Prepayment risk generally increases when interest rates decline. In this scenario, our financial results may be adversely affected as we may have to invest that principal at potentially lower yields.

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- Extension Risk. Because residential borrowers have the option to make only scheduled payments on their mortgage loans, rather than prepay their mortgage loans, we face the risk that a return of capital on our investment will occur slower than anticipated. Extension risk generally increases when interest rates rise. In this scenario, our financial results may be adversely affected as we may have to finance our investments at potentially higher costs without the ability to reinvest principal into higher yielding securities.

The principal instruments that we use to hedge a portion of our exposure to interest rate, prepayment and extension risks are interest rate swaps and options to enter into interest rate swaps ("interest rate swaptions"). We also utilize forward contracts for the purchase or sale of agency MBS securities on a generic pool basis, or a TBA contract, and on a non-generic, specified pool basis, and we utilize U.S. Treasury securities and U.S. Treasury futures contracts, primarily through short sales. We may also purchase or write put or call options on TBA securities and we may invest in other types of mortgage derivatives, such as interest and principal-only securities.

Our hedging instruments are generally not designed to protect our net book value from "spread risk" (also referred to as "basis risk"), which is the risk of an increase of the market spread between the yield on our agency securities and the benchmark yield on U.S. Treasury securities or interest rate swap rates. The inherent spread risk associated with our agency securities and the resulting fluctuations in fair value of these securities can occur independent of 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 ("Fed"), 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 our net book value against moves in interest rates, such instruments typically will not protect our net book value against spread risk and, therefore, the value of our agency securities and our net book value could decline.

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 be no certainty that our Manager's projections of our exposures to interest rates, prepayments, extension or other risks will be accurate or that our hedging activities will be effective and, therefore, actual results could differ materially.

Income from hedging transactions that we enter into to manage risk may not constitute qualifying gross income under one or both of the gross income tests applicable to REITs. Therefore, we may have to limit our use of certain advantageous hedging techniques, which could expose us to greater risks than we would otherwise want to bear, or implement those hedges through a taxable REIT subsidiary ("TRS"). Implementing our hedges through a TRS could increase the cost of our hedging activities because a TRS is subject to tax on income and gains.

Trends and Recent Market Impacts

The first quarter of 2014 saw some stability return to the fixed income markets. After being one of the hardest hit sectors in 2013, fixed rate agency MBS prices were generally higher over the first quarter largely due to lower long term rates and lower levels of implied volatility (lower option prices). The yield curve flattened during the quarter as the market began to anticipate a shift in Fed monetary policy toward a moderate pace of tightening potentially beginning mid-2015. During the quarter, the Fed continued to taper its asset purchase program at a pace of $10 billion per meeting, spread equally between agency MBS and U.S. Treasury instruments. A continued decline in new mortgage origination volumes more than offset the reduced Fed purchases and generally supported mortgage performance despite significant selling on the part of fixed-income money managers.

The favorable landscape for agency MBS led to our economic return for the quarter of 5.1%, or 20.5% on an annualized basis, comprised of a $0.56 increase in our net book value per common share and a $0.65 dividend per common share. A sizable portion of this positive performance related to how we positioned the portfolio toward the end of 2013. These actions included maintaining just over 50% of our portfolio in 15 year fixed rate agency MBS, operating with a larger than normal "duration gap" (the estimated difference between the interest rate sensitivity of our assets and our liabilities and hedges), concentrating our hedges in the three to seven year part of the yield curve, and reducing the size of our swaption portfolio both prior to and during the first quarter.

Our decision to operate with a slightly larger duration gap during the first quarter was consistent with the higher share of 15 year MBS in our asset composition, our moderate leverage profile, and the minimal extension risk in our portfolio and in agency MBS more broadly. Our exposure to an increase in interest rates is the combination of our current duration plus the duration extension that occurs as interest rates increase. As such, when extension risk is very significant, we will tend to operate with a smaller duration gap and when extension risk is very low we will tend to operate with a larger duration gap. See also "Quantitative and Qualitative Disclosures about Market Risk" for a discussion of our exposure to interest rate sensitivity as of March 31, 2014.

Given very favorable implied financing terms available in the agency MBS to-be-announced market (or "TBA" market) during the first quarter, we held a greater share of our assets in the form of forward commitments to purchase agency MBS, or TBAs, rather than settling specific mortgage pools and funding them with repurchase agreements. Our TBA dollar roll position increased to approximately $14 billion at quarter end due to a combination of very favorable financing and a reduction in the benefits of holding specified collateral.

An additional benefit to gaining exposure to agency MBS in TBA form and continuing to roll the purchases forward to later settlement dates is that dollar roll income associated with these positions is tax efficient given our large capital loss carryforward from 2013. Each dollar roll transaction is recognized as a realized event and dollar roll income/loss is treated as capital gains/losses for tax purposes, rather than as ordinary income as would be the case if the position was held in pool form and funded with repurchase agreement financing. Dollar roll income, therefore, nets against our accumulated tax capital loss carryforward for taxable earnings purposes. If we continue to utilize our capital loss carryforward by generating net capital gains through dollar roll transactions, the tax characterization of a portion of our dividend may change from "ordinary" to "return of capital." Dividends characterized as "return of capital" may reduce a shareholder's cost basis in their stock position and thus impact the capital gain or loss they may recognize upon sale of the stock. If this occurs, it may be beneficial to shareholders in that dividends recorded as "return of capital" may represent a deferred tax liability and are typically taxed at the lower capital gains tax rate rather than being taxed in the current year at the ordinary income tax rate. As of March 31, 2014, we had $1.7 billion (or $4.77 per common share) of remaining capital loss carryforwards available to be applied against future capital gains (see also "Dividends and Income Taxes" in our "Results of Operations"). The final tax characterization of our dividends will be determined on an annual basis and reported to shareholders on Form 1090-DIV after the end of the calendar year. The tax consequences of an investment in our common stock will depend upon each shareholder's particular circumstances and shareholders are advised to consult with their tax advisors concerning the tax consequences of an investment in our common stock.

The table below summarizes interest rates and prices of generic fixed rate agency mortgage-backed securities as of each date presented below:

Interest Rate/Security Price [1]	Mar. 31, 2014	Dec. 31, 2013	Sept 30, 2013	June 30, 2013	Mar. 31, 2013	Mar. 31, 2014 vs. Dec. 31, 2013
LIBOR:						
1-Month	0.15%	0.17%	0.18%	0.19%	0.20%	--0.02 bps
3-Month	0.23%	0.25%	0.25%	0.27%	0.28%	--0.02 bps
6-Month	0.33%	0.35%	0.37%	0.41%	0.44%	--0.02 bps
U.S. Treasury Security Rate:						
2-Year U.S. Treasury	0.42%	0.38%	0.32%	0.36%	0.24%	+0.04 bps
3-Year U.S. Treasury	0.90%	0.78%	0.63%	0.66%	0.36%	+0.12 bps
5-Year U.S. Treasury	1.72%	1.74%	1.38%	1.39%	0.77%	--0.02 bps
10-Year U.S. Treasury	2.72%	3.03%	2.61%	2.49%	1.85%	--0.31 bps
30-Year U.S. Treasury	3.56%	3.96%	3.69%	3.52%	3.10%	--0.40 bps
Interest Rate Swap Rate:						
2-Year Swap	0.55%	0.49%	0.46%	0.51%	0.42%	+0.06 bps
3-Year Swap	0.99%	0.88%	0.76%	0.82%	0.54%	+0.11 bps
5-Year Swap	1.80%	1.79%	1.54%	1.57%	0.95%	+0.01 bps
10-Year Swap	2.84%	3.09%	2.77%	2.70%	2.01%	--0.25 bps
30-Year Swap	3.54%	3.93%	3.66%	3.45%	2.99%	--0.39 bps
30-Year Fixed Rate MBS Price:						
3.0%	$96.53	$95.11	$97.70	$97.72	$103.11	+$1.42
3.5%	$100.59	$99.48	$101.83	$101.50	$105.58	+$1.11
4.0%	$103.94	$103.11	$104.86	$104.16	$106.61	+$0.83
4.5%	$106.69	$106.06	$106.80	$105.82	$107.73	+$0.63
5.0%	$109.05	$108.80	$108.45	$107.65	$108.34	+$0.25
15-Year Fixed Rate MBS Price:						
2.5%	$99.92	$99.00	$100.61	$100.45	$103.75	+$0.92
3.0%	$102.72	$102.05	$103.53	$102.82	$105.17	+$0.67
3.5%	$104.83	$104.58	$105.58	$104.20	$106.03	+$0.25
4.0%	$105.78	$105.94	$106.25	$105.32	$107.00	-$0.16
4.5%	$106.05	$106.44	$106.25	$106.00	$107.67	-$0.39

1. Price information is for generic instruments only and is not reflective of our specific portfolio holdings. Price information can vary by source. Prices in the table above were obtained from a combination of Bloomberg and dealer indications. Interest rates were obtained from Bloomberg.

The following table summarizes recent prepayment trends for our portfolio:

Annualized Monthly Constant Prepayment Rates [1]	Dec. 2013	Jan. 2014	Feb. 2014	Mar. 2014
AGNC portfolio	8%	8 %	7 %	6 %

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 March 31, 2014 and December 31, 2013, our investment portfolio consisted of $56.4 billion and $65.9 billion of agency MBS, respectively, and a $14.1 billion and $2.3 billion net long TBA position, at fair value, respectively. Our TBA positions are recorded as derivative instruments in our accompanying consolidated financial statements, with the TBA dollar roll transactions representing a form of off-balance sheet financing. As of March 31, 2014 and December 31, 2013, our TBA position had a net carrying value of $(25) million and $(5) 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 cost basis or the forward price to be paid or received for the underlying agency security.

The following tables summarize certain characteristics of our agency MBS investment portfolio and our net TBA position as of March 31, 2014 and December 31, 2013 (dollars in millions):

	March 31, 2014								
						Weighted Average			
Agency MBS Classified as Available-for-Sale ("AFS")	Par Value	Amortized Cost	Amortized Cost Basis	Fair Value	% Lower Loan Balance & HARP [2,3]	WAC [4]	Yield [5]	Age (Mths)	Projected Life CPR [5]
Investments By Coupon: [1]									
Fixed Rate									
≤ 15-Year									
≤ 2.5%	$7,439	$7,597	102.1%	$7,451	36%	2.96%	2.04%	17	5%
3.0%	4,655	4,797	103.1%	4,788	76%	3.49%	2.30%	25	7%
3.5%	10,479	10,894	104.0%	11,004	59%	3.93%	2.53%	36	10%
4.0%	5,436	5,699	104.8%	5,788	88%	4.40%	2.76%	40	12%
4.5%	568	597	105.2%	608	97%	4.87%	3.11%	43	14%
≥ 5.0%	8	8	104.3%	9	24%	6.48%	4.37%	76	2%
Total ≤ 15-Year	28,585	29,592	103.5%	29,648	63%	3.72%	2.43%	30	9%
20-Year									
≤ 3.0%	345	342	99.2%	345	28%	3.55%	3.10%	10	2%
3.5%	757	775	102.3%	779	63%	4.05%	3.09%	13	4%
4.0%	89	94	104.9%	94	47%	4.53%	3.06%	31	8%
4.5%	113	121	107.1%	122	97%	4.89%	3.15%	40	11%
≥ 5.0%	6	6	106.5%	7	—%	5.90%	3.38%	70	21%
Total 20-Year:	1,310	1,338	102.1%	1,347	56%	4.04%	3.10%	16	5%
30-Year:									
≤ 3.0%	228	232	101.8%	220	69%	3.69%	2.77%	14	5%
3.5%	8,651	9,160	105.9%	8,706	96%	4.02%	2.75%	22	6%
4.0%	9,223	9,808	106.3%	9,592	94%	4.47%	3.10%	26	8%
4.5%	3,215	3,433	106.8%	3,445	91%	4.95%	3.47%	36	10%
5.0%	204	217	106.4%	223	65%	5.45%	3.79%	72	13%
≥ 5.5%	254	276	108.5%	280	36%	6.24%	3.39%	87	17%
Total 30-Year	21,775	23,126	106.2%	22,466	93%	4.38%	3.02%	27	7%
Total Fixed Rate	51,670	54,056	104.6%	53,461	75%	4.01%	2.70%	28	8%
Adjustable Rate	1,152	1,176	102.1%	1,195	—%	2.58%	2.36%	28	18%
CMO	1,249	1,281	102.6%	1,289	—%	4.29%	2.88%	24	7%
Total / Weighted Average	$54,071	$56,513	104.5%	$55,945	72%	3.99%	2.70%	28	8%

Agency MBS Remeasured at Fair Value Through Earnings	March 31, 2014 Underlying Unamortized Principal Balance	Amortized Cost	Fair Value	Weighted Average Coupon [1]	Yield [5]	Age (Mths)	Projected Life CPR [5]
Interest-Only Strips	$1,324	$211	$230	5.49%	7.83%	47	12%
Principal-Only Strips	265	204	202	—%	4.13%	28	9%
Total / Weighted Average	$1,589	$415	$432	4.57%	6.01%	38	10%

1. The weighted average coupon on our agency MBS classified as "AFS" was 3.53% and the weighted average coupon on our total agency MBS portfolio, including agency MBS remeasured at fair value through earnings, was 3.65% as of March 31, 2014.
2. 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 $100,000 and $95,000 for 15-year and 30-year securities, respectively, as of March 31, 2014.
3. HARP securities are defined as pools backed by100% refinance loans with LTV ≥ 80%. Our HARP securities had a weighted average LTV of 107% and 106% for 15-year and 30-year securities, respectively, as of March 31, 2014. Includes $987 million and $2.1 billion of 15-year and 30-year securities with >105 LTV pools which are not deliverable into TBA securities.
4. WAC represents the weighted average coupon of the underlying collateral.
5. Portfolio yield incorporates a projected life CPR assumption based on forward rate assumptions as of March 31, 2014.

TBA Securities	March 31, 2014 Notional Amount - Long (Short) [1]	Cost Basis [2]	Market Value [3]	Net Carrying Value [4]
15-Year TBA securities:				
2.5%	$1,774	$1,773	$1,769	$(4)
3.0%	4,884	5,020	5,008	(12)
3.5%	(2,315)	(2,437)	(2,424)	13
4.0%	(50)	(53)	(53)	—
Total 15-Year TBAs	4,293	4,303	4,300	(3)
30-Year TBA securities:				
3.0%	55	52	53	1
3.5%	4,200	4,237	4,223	(14)
4.0%	6,786	7,054	7,043	(11)
4.5%	(1,425)	(1,519)	(1,517)	2
Total 30-Year TBAs	9,616	9,824	9,802	(22)
Total net TBA securities	$13,909	$14,127	$14,102	$(25)

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 on the accompanying consolidated balance sheets.

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Agency MBS Classified as AFS	December 31, 2013 Par Value	Amortized Cost	Amortized Cost Basis	Fair Value	% Lower Loan Balance & HARP [2,3]	Weighted Average WAC [4]	Yield [5]	Age (Months)	Projected Life CPR [5]
Investments By Coupon: [1]									
Fixed Rate									
≤ 15-Year									
≤ 2.5%	$11,189	$11,400	101.9%	$11,109	31%	2.96%	2.11%	14	6%
3.0%	6,037	6,220	103.0%	6,166	69%	3.48%	2.34%	21	7%
3.5%	14,049	14,632	104.2%	14,716	51%	3.93%	2.52%	31	9%
4.0%	5,700	5,981	104.9%	6,056	88%	4.40%	2.78%	37	9%
4.5%	588	619	105.3%	631	99%	4.87%	3.15%	40	10%
≥ 5.0%	8	9	104.5%	9	23%	6.49%	4.40%	73	14%
Total ≤ 15-Year	37,571	38,861	103.4%	38,687	55%	3.66%	2.42%	25	8%
20-Year									
≤ 3.0%	350	347	99.2%	346	28%	3.55%	3.10%	7	5%
3.5%	770	788	102.4%	785	63%	4.05%	3.11%	10	6%
4%	93	97	105.0%	97	47%	4.53%	3.10%	28	7%
4.5%	116	125	107.3%	124	97%	4.89%	3.20%	37	8%
≥ 5.0%	6	7	106.7%	7	—%	5.89%	3.39%	67	16%
Total 20-Year:	1,335	1,364	102.2%	1,359	56%	4.05%	3.11%	13	6%
30-Year:									
≤ 3.0%	231	236	101.8%	220	69%	3.69%	2.78%	11	5%
3.5%	8,530	9,051	106.1%	8,477	99%	4.02%	2.76%	19	5%
4%	9,077	9,669	106.5%	9,359	92%	4.46%	3.14%	22	6%
4.5%	4,075	4,355	106.9%	4,332	88%	4.95%	3.53%	33	7%
5.0%	211	226	106.6%	229	65%	5.46%	3.84%	69	10%
≥ 5.5%	271	295	108.8%	298	36%	6.25%	3.46%	84	19%
Total 30-Year	22,395	23,832	106.4%	22,915	93%	4.41%	3.08%	24	6%
Total Fixed Rate	61,301	64,057	104.5%	62,961	69%	3.95%	2.68%	24	7%
Adjustable Rate	1,196	1,223	102.2%	1,235	—%	2.58%	2.41%	26	17%
CMO	1,280	1,313	102.6%	1,308	—%	4.30%	2.88%	21	7%
Total / Weighted Average	$63,777	$66,593	104.4%	$65,504	66%	3.93%	2.68%	24	7%

Agency MBS Remeasured at Fair Value Through Earnings	December 31, 2013 Underlying Unamortized Principal Balance	Amortized Cost	Fair Value	Weighted Average Coupon [1]	Yield [5]	Age (Months)	Projected Life CPR [5]
Interest-Only Strips	$1,379	$223	$ 232	5.50%	7.63%	45	11%
Principal-Only Strips	271	209	205	—%	3.84%	25	8%
Total / Weighted Average	$1,650	$432	$ 437	4.59%	5.80%	35	9%

1. The weighted average coupon on our agency MBS classified as "AFS" held as of December 31, 2013 was 3.47% and the weighted average coupon on our total agency MBS portfolio, including agency MBS remeasured at fair value through earnings, held as of December 31, 2013 was 3.58%.

2. Lower loan balance securities represent pools backed by an original loan balance of up to ≤ \$150,000. Our lower loan balance securities had a weighted average original loan balance of \$100,000 and \$95,000 for 15-year and 30-year securities, respectively, as of December 31, 2013.
3. HARP securities are defined as pools backed by100% refinance loans with LTVs ≥ 80%. Our HARP securities had a weighted average LTV of 106% and 105% for 15-year and 30-year securities, respectively, as of December 31, 2013.
4. WAC represents the weighted average coupon of the underlying collateral.
5. Portfolio yield incorporates a projected life CPR assumption based on forward rate assumptions as of December 31, 2013.

TBA Securities	December 31, 2013 Notional Amount Long / (Short) [1]	Cost Basis [2]	Market Value [3]	Net Carrying Value [4]
15-Year TBA securities				
2.0%	$(1,184)	$(1,174)	$(1,171)	$3
2.5%	(2,429)	(2,481)	(2,475)	6
3.0%	(428)	(450)	(447)	3
3.5%	(50)	(53)	(53)	—
Total 15-Year TBAs	(4,091)	(4,158)	(4,146)	12
30-Year TBA securities				
3.0%	54	52	52	—
3.5%	600	598	598	—
4.0%	4,131	4,274	4,256	(18)
4.5%	1,425	1,510	1,511	1
Total 30-Year TBAs	6,210	6,434	6,417	(17)
Total net TBA securities	$2,119	$2,276	$2,271	$(5)

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 on the accompanying consolidated balance sheets.

As of March 31, 2014 and December 31, 2013, the combined weighted average yield of our agency MBS portfolio, inclusive of interest and principal-only strips, was 2.72% and 2.70%, respectively.

The stated contractual final maturity of the mortgage loans underlying our agency MBS portfolio ranges up to 40 years. As of March 31, 2014 and December 31, 2013, the weighted average final contractual maturity of our agency MBS portfolio was 20 and 19 years, respectively.

The actual maturities of agency MBS are generally shorter than their stated contractual maturities primarily as a result of prepayments of principal of the underlying mortgages. The weighted average expected maturity of our agency MBS portfolio was 5.2 and 6.5 years as of March 31, 2014 and December 31, 2013, respectively. In determining the estimated weighted average years to maturity of our agency MBS and the yield on our agency MBS, we have assumed a weighted average CPR over the remaining life of our agency MBS portfolio of 8% and 7% as of March 31, 2014 and December 31, 2013, respectively. We amortize or accrete premiums and discounts associated with purchases of our agency MBS into interest income over the estimated life of our securities based on actual and projected CPRs, using the effective yield method. Since the weighted average cost basis of our agency MBS portfolio, including principal and interest-only strips, was 104.8% of par value as of March 31, 2014, slower actual and projected prepayments can have a meaningful positive impact on our asset yields, while faster actual or projected prepayments can have a meaningful negative impact on our asset yields.

The following table summarizes our agency MBS classified as available-for-sale, at fair value, according to their estimated weighted average life classifications as of March 31, 2014 and December 31, 2013 (dollars in millions):

Estimated Weighted Average Life of Agency MBS	March 31, 2014 Fair Value	Amortized Cost	Weighted Average	Weighted Average	December 31, 2013 Fair Value	Amortized Cost	Weighted Average	Weighted Average

Classified as Available-for-Sale [1]			Coupon	Yield			Coupon	Yield
≤ 1 year	$27	$25	2.49%	1.81%	$129	$ 129	3.07%	2.53%
> 1 year and ≤ 3 years	191	186	4.86%	3.29%	498	491	4.08%	2.25%
> 3 years and ≤ 5 years	22,947	22,758	3.55%	2.53%	24,471	24,342	3.59%	2.57%
> 5 years and ≤10 years	32,534	33,284	3.51%	2.80%	38,522	39,635	3.39%	2.73%
> 10 years	246	260	3.61%	2.87%	1,884	1,996	3.66%	2.96%
Total	$55,945							