

ANNALY CAPITAL MANAGEMENT INC  
Form 10-Q  
May 03, 2019  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED: MARCH 31, 2019

OR

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

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_  
COMMISSION FILE NUMBER: 1-13447

ANNALY CAPITAL MANAGEMENT, INC.

(Exact Name of Registrant as Specified in its Charter)

MARYLAND

(State or other jurisdiction of incorporation or organization)

22-3479661

(IRS Employer Identification No.)

1211 AVENUE OF THE AMERICAS

NEW YORK, NEW YORK

(Address of principal executive offices)

(212) 696-0100

(Registrant's telephone number, including area code)

10036

(Zip Code)

Indicate by check mark whether the registrant (1) has filed all reports required 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 period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated Accelerated Non-accelerated Smaller reporting Emerging growth

filer filer filer company company

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

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

Securities registered pursuant to Section 12(b) of the Act:

| Title of Each Class                                                         | Trading Symbol(s) | Name of Each Exchange on Which Registered |
|-----------------------------------------------------------------------------|-------------------|-------------------------------------------|
| Common Stock, par value \$0.01 per share                                    | NLY               | New York Stock Exchange                   |
| 7.625% Series C Cumulative Redeemable Preferred Stock                       | NLY.C             | New York Stock Exchange                   |
| 7.50% Series D Cumulative Redeemable Preferred Stock                        | NLY.D             | New York Stock Exchange                   |
| 6.95% Series F Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock | NLY.F             | New York Stock Exchange                   |
| 6.50% Series G Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock | NLY.G             | New York Stock Exchange                   |
| 8.125% Series H Cumulative Redeemable Preferred Stock                       | NLY.H             | New York Stock Exchange                   |

The number of shares of the registrant's Common Stock outstanding on April 30, 2019 was 1,456,197,143.

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FORM 10-Q  
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## ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

## Item 1. Financial Statements

## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(dollars in thousands, except per share data)

|                                                                                                                                          | March 31,<br>2019<br>(Unaudited) | December 31,<br>2018 <sup>(1)</sup> |
|------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|-------------------------------------|
| Assets                                                                                                                                   |                                  |                                     |
| Cash and cash equivalents (includes pledged assets of \$1,338,507 and \$1,581,775, respectively) <sup>(2)</sup>                          | \$ 1,522,605                     | \$ 1,735,749                        |
| Securities (includes pledged assets of \$95,845,559 and \$87,193,316, respectively) <sup>(3)</sup>                                       | 104,993,271                      | 92,623,788                          |
| Loans, net (includes pledged assets of \$2,243,369 and \$2,997,051, respectively) <sup>(4)</sup>                                         | 3,879,324                        | 4,585,975                           |
| Mortgage servicing rights (includes pledged assets of \$3,260 and \$3,616, respectively)                                                 | 500,745                          | 557,813                             |
| Assets transferred or pledged to securitization vehicles                                                                                 | 4,365,300                        | 3,833,200                           |
| Real estate, net                                                                                                                         | 734,239                          | 739,473                             |
| Derivative assets                                                                                                                        | 148,178                          | 200,503                             |
| Reverse repurchase agreements                                                                                                            | 523,449                          | 650,040                             |
| Receivable for unsettled trades                                                                                                          | 1,574,251                        | 68,779                              |
| Interest receivable                                                                                                                      | 390,930                          | 357,365                             |
| Goodwill and intangible assets, net                                                                                                      | 98,551                           | 100,854                             |
| Other assets                                                                                                                             | 441,706                          | 333,988                             |
| Total assets                                                                                                                             | \$ 119,172,549                   | \$ 105,787,527                      |
| Liabilities and stockholders' equity                                                                                                     |                                  |                                     |
| Liabilities                                                                                                                              |                                  |                                     |
| Repurchase agreements                                                                                                                    | \$ 88,554,170                    | \$ 81,115,874                       |
| Other secured financing                                                                                                                  | 4,144,623                        | 4,183,311                           |
| Debt issued by securitization vehicles                                                                                                   | 3,693,766                        | 3,347,062                           |
| Mortgages payable                                                                                                                        | 510,386                          | 511,056                             |
| Derivative liabilities                                                                                                                   | 775,980                          | 889,750                             |
| Payable for unsettled trades                                                                                                             | 4,763,376                        | 583,036                             |
| Interest payable                                                                                                                         | 424,391                          | 570,928                             |
| Dividends payable                                                                                                                        | 434,431                          | 394,129                             |
| Other liabilities                                                                                                                        | 89,982                           | 74,580                              |
| Total liabilities                                                                                                                        | 103,391,105                      | 91,669,726                          |
| Stockholders' equity                                                                                                                     |                                  |                                     |
| Preferred stock, par value \$0.01 per share, 75,950,000 authorized, 73,400,00 issued and outstanding                                     | 1,778,168                        | 1,778,168                           |
| Common stock, par value \$0.01 per share, 1,924,050,000 authorized, 1,448,103,248 and 1,313,763,450 issued and outstanding, respectively | 14,481                           | 13,138                              |
| Additional paid-in capital                                                                                                               | 20,112,875                       | 18,794,331                          |
| Accumulated other comprehensive income (loss)                                                                                            | (319,376)                        | (1,979,865)                         |
| Accumulated deficit                                                                                                                      | (5,809,931)                      | (4,493,660)                         |
| Total stockholders' equity                                                                                                               | 15,776,217                       | 14,112,112                          |
| Noncontrolling interests                                                                                                                 | 5,227                            | 5,689                               |
| Total equity                                                                                                                             | 15,781,444                       | 14,117,801                          |
| Total liabilities and equity                                                                                                             | \$ 119,172,549                   | \$ 105,787,527                      |

- (1) Derived from the audited consolidated financial statements at December 31, 2018.
- (2) Includes cash of consolidated Variable Interest Entities (“VIEs”) of \$40.7 million and \$30.4 million at March 31, 2019 and December 31, 2018, respectively.  
Excludes \$273.4 million and \$83.6 million at March 31, 2019 and December 31, 2018, respectively, of
- (3) non-Agency mortgage-backed securities and \$246.6 million and \$224.3 million at March 31, 2019 and December 31, 2018, respectively, of commercial mortgage-backed securities in consolidated VIEs pledged as collateral and eliminated from the Company’s Consolidated Statements of Financial Condition.  
Includes \$101.3 million and \$97.5 million of residential mortgage loans held for sale, \$42.0 million and \$42.2
- (4) million of commercial mortgage loans held for sale and \$44.5 million and \$0 of corporate loans held for sale at March 31, 2019 and December 31, 2018, respectively.

See notes to consolidated financial statements.

## ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

## Item 1. Financial Statements

## ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(dollars in thousands, except per share data)

(Unaudited)

|                                                                                      | For The Three Months<br>Ended March 31, |               |
|--------------------------------------------------------------------------------------|-----------------------------------------|---------------|
|                                                                                      | 2019                                    | 2018          |
| Net interest income                                                                  |                                         |               |
| Interest income                                                                      | \$866,186                               | \$ 879,487    |
| Interest expense                                                                     | 647,695                                 | 367,421       |
| Net interest income                                                                  | 218,491                                 | 512,066       |
| Realized and unrealized gains (losses)                                               |                                         |               |
| Net interest component of interest rate swaps                                        | 134,035                                 | (48,160 )     |
| Realized gains (losses) on termination or maturity of interest rate swaps            | (588,256 )                              | 834           |
| Unrealized gains (losses) on interest rate swaps                                     | (390,556 )                              | 977,285       |
| Subtotal                                                                             | (844,777 )                              | 929,959       |
| Net gains (losses) on disposal of investments                                        | (93,916 )                               | 13,468        |
| Net gains (losses) on other derivatives                                              | (115,159 )                              | (47,145 )     |
| Net unrealized gains (losses) on instruments measured at fair value through earnings | 47,629                                  | (51,593 )     |
| Loan loss provision                                                                  | (5,703 )                                | —             |
| Subtotal                                                                             | (167,149 )                              | (85,270 )     |
| Total realized and unrealized gains (losses)                                         | (1,011,926)                             | 844,689       |
| Other income (loss)                                                                  | 30,502                                  | 34,023        |
| General and administrative expenses                                                  |                                         |               |
| Compensation and management fee                                                      | 44,833                                  | 44,529        |
| Other general and administrative expenses                                            | 38,904                                  | 17,981        |
| Total general and administrative expenses                                            | 83,737                                  | 62,510        |
| Income (loss) before income taxes                                                    | (846,670 )                              | 1,328,268     |
| Income taxes                                                                         | 2,581                                   | 564           |
| Net income (loss)                                                                    | (849,251 )                              | 1,327,704     |
| Net income (loss) attributable to noncontrolling interests                           | (101 )                                  | (96 )         |
| Net income (loss) attributable to Annaly                                             | (849,150 )                              | 1,327,800     |
| Dividends on preferred stock                                                         | 32,494                                  | 33,766        |
| Net income (loss) available (related) to common stockholders                         | \$(881,644)                             | \$ 1,294,034  |
| Net income (loss) per share available (related) to common stockholders               |                                         |               |
| Basic                                                                                | \$(0.63 )                               | \$ 1.12       |
| Diluted                                                                              | \$(0.63 )                               | \$ 1.12       |
| Weighted average number of common shares outstanding                                 |                                         |               |
| Basic                                                                                | 1,398,614,205                           | 1,159,617,848 |
| Diluted                                                                              | 1,398,614,205                           | 1,160,103,185 |
| Other comprehensive income (loss)                                                    |                                         |               |
| Net income (loss)                                                                    | \$(849,251)                             | \$ 1,327,704  |
| Unrealized gains (losses) on available-for-sale securities                           | 1,599,398                               | (1,879,479 )  |
| Reclassification adjustment for net (gains) losses included in net income (loss)     | 61,091                                  | 5,419         |
| Other comprehensive income (loss)                                                    | 1,660,489                               | (1,874,060 )  |
| Comprehensive income (loss)                                                          | 811,238                                 | (546,356 )    |
| Comprehensive income (loss) attributable to noncontrolling interests                 | (101 )                                  | (96 )         |
| Comprehensive income (loss) attributable to Annaly                                   | 811,339                                 | (546,260 )    |

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|                                                                 |           |               |
|-----------------------------------------------------------------|-----------|---------------|
| Dividends on preferred stock                                    | 32,494    | 33,766        |
| Comprehensive income (loss) attributable to common stockholders | \$778,845 | \$ (580,026 ) |

See notes to consolidated financial statements.

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## ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

## Item 1. Financial Statements

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(dollars in thousands)

(Unaudited)

|                                                                                                   | For The Three Months<br>Ended March 31, |                 |
|---------------------------------------------------------------------------------------------------|-----------------------------------------|-----------------|
|                                                                                                   | 2019                                    | 2018            |
| Preferred stock                                                                                   |                                         |                 |
| Beginning of period                                                                               | \$ 1,778,168                            | \$ 1,720,381    |
| Issuance                                                                                          | —                                       | 411,335         |
| Redemption                                                                                        | —                                       | (408,548 )      |
| End of period                                                                                     | \$ 1,778,168                            | \$ 1,723,168    |
| Common stock                                                                                      |                                         |                 |
| Beginning of period                                                                               | \$ 13,138                               | \$ 11,596       |
| Issuance                                                                                          | 1,342                                   | —               |
| Direct purchase and dividend reinvestment                                                         | 1                                       | 1               |
| End of period                                                                                     | \$ 14,481                               | \$ 11,597       |
| Additional paid-in capital                                                                        |                                         |                 |
| Beginning of period                                                                               | \$ 18,794,331                           | \$ 17,221,265   |
| Stock compensation expense                                                                        | 178                                     | 133             |
| Issuance                                                                                          | 1,317,475                               | —               |
| Redemption of preferred stock                                                                     | —                                       | (3,952 )        |
| Direct purchase and dividend reinvestment                                                         | 891                                     | 745             |
| End of period                                                                                     | \$ 20,112,875                           | \$ 17,218,191   |
| Accumulated other comprehensive income (loss)                                                     |                                         |                 |
| Beginning of period                                                                               | \$ (1,979,865 )                         | \$ (1,126,020 ) |
| Unrealized gains (losses) on available-for-sale securities                                        | 1,599,398                               | (1,879,479 )    |
| Reclassification adjustment for net gains (losses) included in net income (loss)                  | 61,091                                  | 5,419           |
| End of period                                                                                     | \$ (319,376 )                           | \$ (3,000,080 ) |
| Accumulated deficit                                                                               |                                         |                 |
| Beginning of period                                                                               | \$ (4,493,660 )                         | \$ (2,961,749 ) |
| Net income (loss) attributable to Annaly                                                          | (849,150 )                              | 1,327,800       |
| Dividends declared on preferred stock <sup>(1)</sup>                                              | (32,494 )                               | (33,766 )       |
| Dividends and dividend equivalents declared on common stock and share-based awards <sup>(1)</sup> | (434,627 )                              | (347,897 )      |
| End of period                                                                                     | \$ (5,809,931 )                         | \$ (2,015,612 ) |
| Total stockholder's equity                                                                        | \$ 15,776,217                           | \$ 13,937,264   |
| Noncontrolling interests                                                                          |                                         |                 |
| Beginning of period                                                                               | \$ 5,689                                | \$ 6,100        |
| Net income (loss) attributable to noncontrolling interests                                        | (101 )                                  | (96 )           |
| Equity contributions from (distributions to) noncontrolling interests                             | (361 )                                  | (333 )          |
| End of period                                                                                     | \$ 5,227                                | \$ 5,671        |
| Total equity                                                                                      | \$ 15,781,444                           | \$ 13,942,935   |

<sup>(1)</sup> See Note titled "Capital Stock" for dividends per share for each class of shares.

See notes to consolidated financial statements.



## ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

## Item 1. Financial Statements

## ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

|                                                                                                   | For The Three Months<br>Ended March 31, |                  |
|---------------------------------------------------------------------------------------------------|-----------------------------------------|------------------|
|                                                                                                   | 2019                                    | 2018             |
| Cash flows from operating activities                                                              |                                         |                  |
| Net income (loss)                                                                                 | \$ (849,251 )                           | \$ 1,327,704     |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities |                                         |                  |
| Amortization of premiums and discounts of investments, net                                        | 246,150                                 | 92,976           |
| Amortization of securitized debt premiums and discounts and deferred financing costs              | (3,627 )                                | 408              |
| Depreciation, amortization and other noncash expenses                                             | 7,072                                   | 5,822            |
| Net (gains) losses on disposals of investments                                                    | 93,916                                  | (13,468 )        |
| Net (gains) losses on investments and derivatives                                                 | 458,086                                 | (878,547 )       |
| Income from unconsolidated joint ventures                                                         | 1,960                                   | 618              |
| Loan loss provision                                                                               | 5,703                                   | —                |
| Payments on purchases of loans held for sale                                                      | (49,070 )                               | (37,190 )        |
| Proceeds from sales and repayments of loans held for sale                                         | 44,817                                  | 30,178           |
| Net receipts (payments) on derivatives                                                            | (633,221 )                              | 951,021          |
| Net change in                                                                                     |                                         |                  |
| Other assets                                                                                      | (107,040 )                              | (42,361 )        |
| Interest receivable                                                                               | (29,491 )                               | (2,963 )         |
| Interest payable                                                                                  | (146,537 )                              | 31,628           |
| Other liabilities                                                                                 | 18,436                                  | (132,910 )       |
| Net cash provided by (used in) operating activities                                               | (942,097 )                              | 1,332,916        |
| Cash flows from investing activities                                                              |                                         |                  |
| Payments on purchases of residential securities                                                   | (18,374,100 )                           | (3,718,947 )     |
| Proceeds from sales of residential securities                                                     | 7,822,334                               | 463,214          |
| Principal payments on residential securities                                                      | 2,343,383                               | 2,696,245        |
| Payments on purchases of MSRs                                                                     | —                                       | (249 )           |
| Payments on purchases of corporate debt                                                           | (125,351 )                              | (230,103 )       |
| Proceeds from sales of corporate debt                                                             | 179,112                                 | —                |
| Principal payments on corporate debt                                                              | 33,545                                  | 92,820           |
| Originations and purchases of commercial real estate investments                                  | (269,489 )                              | (91,647 )        |
| Proceeds from sales of commercial real estate investments                                         | 41,013                                  | 9,556            |
| Principal repayments on commercial real estate investments                                        | 578,031                                 | 130,555          |
| Proceeds from sales of real estate                                                                | 6,661                                   | —                |
| Proceeds from reverse repurchase agreements                                                       | 28,107,306                              | 20,050,112       |
| Payments on reverse repurchase agreements                                                         | (27,980,715 )                           | (20,250,571 )    |
| Distributions in excess of cumulative earnings from unconsolidated joint ventures                 | 241                                     | 2,813            |
| Payments on purchases of residential mortgage loans held for investment                           | (373,745 )                              | (167,124 )       |
| Proceeds from repayments of residential mortgage loans held for investment                        | 107,783                                 | 67,384           |
| Net cash provided by (used in) investing activities                                               | (7,903,991 )                            | (945,942 )       |
| Cash flows from financing activities                                                              |                                         |                  |
| Proceeds from repurchase agreements and other secured financing                                   | 1,411,469,975                           | 1,299,589,620    |
| Principal payments on repurchase agreements and other secured financing                           | (1,404,070,367 )                        | (1,299,277,944 ) |
| Proceeds from issuances of securitized debt                                                       | 905,265                                 | 279,203          |
| Principal repayments on securitized debt                                                          | (561,955 )                              | (317,773 )       |

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|                                                                                                              |             |                 |
|--------------------------------------------------------------------------------------------------------------|-------------|-----------------|
| Payment of deferred financing cost                                                                           | (1,781      | ) —             |
| Net proceeds from stock offerings, direct purchases and dividend reinvestments                               | 1,319,709   | 412,081         |
| Redemptions of preferred stock                                                                               | —           | (412,500 )      |
| Principal payments on mortgages payable                                                                      | (722        | ) —             |
| Net contributions (distributions) from (to) noncontrolling interests                                         | (361        | ) (333 )        |
| Dividends paid                                                                                               | (426,819    | ) (381,642 )    |
| Net cash provided by (used in) financing activities                                                          | 8,632,944   | (109,288 )      |
| Net (decrease) increase in cash and cash equivalents                                                         | \$(213,144  | ) \$ 277,686    |
| Cash and cash equivalents including cash pledged as collateral, beginning of period                          | 1,735,749   | 706,589         |
| Cash and cash equivalents including cash pledged as collateral, end of period                                | \$1,522,605 | \$ 984,275      |
| Supplemental disclosure of cash flow information                                                             |             |                 |
| Interest received                                                                                            | \$1,079,294 | \$ 1,017,534    |
| Dividends received                                                                                           | \$2,116     | \$ 1,650        |
| Interest paid (excluding interest paid on interest rate swaps)                                               | \$633,805   | \$ 320,988      |
| Net interest paid on interest rate swaps                                                                     | \$34,663    | \$ 39,206       |
| Taxes received (paid)                                                                                        | \$(30       | ) \$ 2          |
| Noncash investing activities                                                                                 |             |                 |
| Receivable for unsettled trades                                                                              | \$1,574,251 | \$ 45,126       |
| Payable for unsettled trades                                                                                 | \$4,763,376 | \$ 91,327       |
| Net change in unrealized gains (losses) on available-for-sale securities, net of reclassification adjustment | \$1,660,489 | \$ (1,874,060 ) |
| Noncash financing activities                                                                                 |             |                 |
| Dividends declared, not yet paid                                                                             | \$434,431   | \$ 347,897      |
| See notes to consolidated financial statements.                                                              |             |                 |

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

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ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. DESCRIPTION OF BUSINESS

Annaly Capital Management, Inc. (the “Company” or “Annaly”) is a Maryland corporation that commenced operations on February 18, 1997. The Company is a leading diversified capital manager that invests in and finances residential and commercial assets. The Company owns a portfolio of real estate related investments, including mortgage pass-through certificates, collateralized mortgage obligations, credit risk transfer (“CRT”) securities, other securities representing interests in or obligations backed by pools of mortgage loans, residential mortgage loans, mortgage servicing rights (“MSRs”), commercial real estate assets and corporate debt. The Company’s principal business objective is to generate net income for distribution to its stockholders and to preserve capital through prudent selection of investments and continuous management of its portfolio. The Company is externally managed by Annaly Management Company LLC (the “Manager”).

The Company’s four investment groups are primarily comprised of the following:

| Investment Groups                   | Description                                                                                                                                                 |
|-------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Annaly Agency Group                 | Invests in Agency mortgage-backed securities (“MBS”) collateralized by residential mortgages which are guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae. |
| Annaly Residential Credit Group     | Invests primarily in non-Agency residential mortgage assets within securitized products and residential mortgage loan markets.                              |
| Annaly Commercial Real Estate Group | Originates and invests in commercial mortgage loans, securities, and other commercial real estate debt and equity investments.                              |
| Annaly Middle Market Lending Group  | Provides financing to private equity-backed middle market businesses across the capital structure.                                                          |

The Company has elected to be taxed as a Real Estate Investment Trust (“REIT”) as defined under the Internal Revenue Code of 1986, as amended, and regulations promulgated thereunder (the “Code”).

2. BASIS OF PRESENTATION

The accompanying consolidated financial statements and related notes of the Company have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”).

The accompanying consolidated financial statements and related notes are unaudited and should be read in conjunction with the audited consolidated financial statements included in the Company’s most recent Annual Report on Form 10-K for the fiscal year ended December 31, 2018 (the “2018 Form 10-K”). The consolidated financial information as of December 31, 2018 has been derived from audited consolidated financial statements included in the Company’s 2018 Form 10-K.

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported balance sheet amounts and/or disclosures at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

In the opinion of management, all normal, recurring adjustments have been included for a fair presentation of this interim financial information. Interim period operating results may not be indicative of the operating results for a full year.

3. SIGNIFICANT ACCOUNTING POLICIES

The Company’s significant accounting policies are described below or are included elsewhere in these notes to the Consolidated Financial Statements.

Principles of Consolidation – The consolidated financial statements include the accounts of the entities where the Company has a controlling financial interest. In order to determine whether the Company has a controlling financial interest, it first evaluates whether an entity is a voting interest entity (“VOE”) or a variable interest entity (“VIE”). All intercompany balances and transactions have been eliminated in consolidation.

Voting Interest Entities – A VOE is an entity that has sufficient equity and in which equity investors have a controlling financial interest. The Company consolidates VOEs where it has a majority of the voting equity of such VOE.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

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**Variable Interest Entities** – A VIE is defined as an entity in which equity investors (i) do not have the characteristics of a controlling financial interest, and/or (ii) do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. A VIE is required to be consolidated by its primary beneficiary, which is defined as the party that has both (i) the power to control the activities that most significantly impact the VIE’s economic performance and (ii) the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE.

The Company performs ongoing reassessments of whether changes in the facts and circumstances regarding the Company’s involvement with a VIE causes the Company’s consolidation conclusion to change. Refer to the “Variable Interest Entities” Note for further information.

**Equity Method Investments** - For entities that are not consolidated, but where the Company has significant influence over the operating or financial decisions of the entity, the Company accounts for the investment under the equity method of accounting. In accordance with the equity method of accounting, the Company will recognize its share of earnings or losses of the investee in the period in which they are reported by the investee. The Company also considers whether there are any indicators of other-than-temporary impairment of joint ventures accounted for under the equity method. These investments are included in Real estate, net and Other assets with income or loss included in Other income (loss).

**Cash and Cash Equivalents** – Cash and cash equivalents include cash on hand, cash held in money market funds on an overnight basis and cash pledged as collateral with counterparties. Cash deposited with clearing organizations is carried at cost, which approximates fair value. Cash and securities deposited with clearing organizations and collateral held in the form of cash on margin with counterparties to the Company’s interest rate swaps and other derivatives totaled \$1.3 billion and \$1.6 billion at March 31, 2019 and December 31, 2018.

**Equity Securities** – The Company may invest in equity securities that are not accounted for under the equity method or do not result in consolidation. These equity securities are required to be reported at fair value with unrealized gains and losses reported in the Consolidated Statements of Comprehensive Income (Loss) as Net unrealized gains (losses) on instruments measured at fair value through earnings, unless the securities do not have readily determinable fair values. For such equity securities without readily determinable fair values, the Company has elected to carry the securities at cost less impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer. For equity securities carried at fair value through earnings, dividends are recorded in earnings on the declaration date. Dividends from equity securities without readily determinable fair values are recognized as income when received to the extent they are distributed from net accumulated earnings.

**Fair Value Measurements and the Fair Value Option** – The Company reports various investments at fair value, including certain eligible financial instruments elected to be accounted for under the fair value option (“FVO”). The Company chooses to elect the fair value option in order to simplify the accounting treatment for certain financial instruments. If an item is accounted for at fair value, including financial instruments elected under the FVO, it is presented at fair value in the Consolidated Statements of Financial Condition and any change in fair value is recorded in Net unrealized gains (losses) on instruments measured at fair value through earnings in the Consolidated Statements of Comprehensive Income (Loss). For additional information regarding financial instruments for which the Company has elected the fair value option see the table in the “Financial Instruments” Note.

Refer to the “Fair Value Measurements” Note for a complete discussion on the methodology utilized by the Company to estimate the fair value of certain financial instruments.

**Offsetting Assets and Liabilities** - The Company elected to present all derivative instruments on a gross basis as discussed in the “Derivative Instruments” Note. Reverse repurchase and repurchase agreements are presented net in the Consolidated Statements of Financial Condition if they are subject to netting agreements and they meet the offsetting criteria. Please see below and refer to the “Secured Financing” Note for further discussion on reverse repurchase and repurchase agreements.

**Derivative Instruments** – Derivatives are accounted for in accordance with the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 815, Derivatives and Hedging, which requires recognition of all

derivatives as either assets or liabilities at fair value in the Consolidated Statements of Financial Condition with changes in fair value recognized in the Consolidated Statements of Comprehensive Income (Loss). The changes in the estimated fair value are presented within Net gains (losses) on other derivatives with the exception of interest rate swaps which are separately presented. None of the Company's derivative transactions have been designated as hedging instruments for accounting purposes. Refer to the "Derivative Instruments" Note for further discussion.

Stock Based Compensation – The Company is required to measure and recognize in the consolidated financial statements the compensation cost relating to share-based payment transactions. The Company recognizes compensation expense ratably over the requisite service period for the entire award.

Interest Income - The Company recognizes coupon income, which is a component of interest income, based upon the outstanding principal amounts of the financial instruments and their contractual terms. In addition, the Company amortizes or accretes premiums or discounts into interest income for its Agency mortgage-backed securities (other than multifamily securities), taking into account

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estimates of future principal prepayments in the calculation of the effective yield. The Company recalculates the effective yield as differences between anticipated and actual prepayments occur. Using third-party model and market information to project future cash flows and expected remaining lives of securities, the effective interest rate determined for each security is applied as if it had been in place from the date of the security's acquisition. The amortized cost of the security is then adjusted to the amount that would have existed had the new effective yield been applied since the acquisition date, which results in a cumulative premium amortization adjustment in each period. The adjustment to amortized cost is offset with a charge or credit to interest income. Changes in interest rates and other market factors will impact prepayment speed projections and the amount of premium amortization recognized in any given period.

Premiums or discounts associated with the purchase of Agency interest-only securities, reverse mortgages and residential credit securities are amortized or accreted into interest income based upon current expected future cash flows with any adjustment to yield made on a prospective basis.

Premiums and discounts associated with the purchase of residential mortgage loans and with those transferred or pledged to securitization trusts are primarily amortized or accreted into interest income over their estimated remaining lives using the effective interest rates inherent in the estimated cash flows from the mortgage loans. Amortization of premiums and accretion of discounts are presented in Interest income in the Consolidated Statements of Comprehensive Income (Loss). Refer to the "Interest Income and Interest Expense" Note for further discussion of interest income.

**Income Taxes** – The Company has elected to be taxed as a REIT and intends to comply with the provisions of the Code, with respect thereto. As a REIT, the Company will not incur federal income tax to the extent that it distributes its taxable income to its stockholders. The Company and certain of its direct and indirect subsidiaries have made separate joint elections to treat these subsidiaries as taxable REIT subsidiaries ("TRSs"). As such, each of these TRSs is taxable as a domestic C corporation and subject to federal, state and local income taxes based upon its taxable income. Refer to the "Income Taxes" Note for further discussion on income taxes.

**Recent Accounting Pronouncements**

The Company considers the applicability and impact of all Accounting Standards Updates ("ASUs"). ASUs not listed below were not applicable, not expected to have a significant impact on the Company's consolidated financial statements when adopted or did not have a significant impact on the Company's consolidated financial statements upon adoption.

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| Standard                                                                                                                   | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Effective Date                             | Effect on the Financial Statements or Other Significant Matters                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|----------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Standards that are not yet adopted                                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                            | The Company plans to adopt the new standard on its effective date. While the Company is continuing to assess the impact the ASU will have on the consolidated financial statements, the measurement of expected credit losses under the CECL model will be based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amounts of the financial assets in scope of the model. The Company has decided to apply a probability of default methodology to loans that will be impacted by the adoption and is continuing to assess the impact on the consolidated financial statements and determine appropriate internal controls and financial statement disclosures. Further, based on the amended guidance for available-for-sale debt securities, the Company: |
| ASU 2016-13<br>Financial instruments<br>- Credit losses (Topic 326): Measurement of credit losses on financial instruments | This ASU updates the existing incurred loss model to a current expected credit loss ("CECL") model for financial assets and net investments in leases that are not accounted for at fair value through earnings. The amendments affect certain loans, held-to-maturity debt securities, trade receivables, net investments in leases, off-balance sheet credit exposures and any other financial assets not excluded from the scope. There are also limited amendments to the impairment model for available-for-sale debt securities. | January 1, 2020 (early adoption permitted) | <ul style="list-style-type: none"> <li>•will be required to use an allowance approach to recognize credit impairment, with the allowance to be limited to the amount by which the security's fair value is less than its amortized cost</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |

|                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                      |                 | <p>basis;</p> <p>may not consider the length of time fair value has been below amortized cost, and</p> <p>may not consider recoveries of fair value after the balance sheet date when assessing whether a credit loss exists.</p>                                                                                                                                                                                                                                                                                                                          |
|------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Standard                                                                                       | Description                                                                                                                                                                                                                                                                                                                                                                          | Effective Date  | Effect on the Financial Statements or Other Significant Matters                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| Standards that were adopted                                                                    |                                                                                                                                                                                                                                                                                                                                                                                      |                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| ASU 2017-01                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                      |                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| Business combinations (Topic 805): Clarifying the definition of a business                     | This update provides a screen to determine and a framework to evaluate when a set of assets and activities is a business.                                                                                                                                                                                                                                                            | January 1, 2018 | <p>The amendments are expected to result in fewer transactions being accounted for as business combinations.</p> <p>As a result of adopting this standard, the Company reclassified its cash flows on reverse repurchase and repurchase agreements entered into by Arcola Securities, Inc. ("Arcola") from operating activities to investing and financing activities, respectively, in the Consolidated Statements of Cash Flows. The Company applied the retrospective transition method, which resulted in reclassification of comparative periods.</p> |
| ASU 2016-15                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                      |                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| Statement of cash flows (Topic 230): Classification of certain cash receipts and cash payments | This update provides specific guidance on certain cash flow classification issues, including classification of cash receipts and payments that have aspects of more than one class of cash flows. If cash flows cannot be separated by source or use, the appropriate classification should depend on the activity that is likely to be the predominant source or use of cash flows. | January 1, 2018 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |

## ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

## Item 1. Financial Statements

## 4. FINANCIAL INSTRUMENTS

The following table presents characteristics for certain of the Company's financial instruments at March 31, 2019 and December 31, 2018.

Financial Instruments <sup>(1)</sup>

| Balance Sheet Line Item                                        | Type / Form                                                           | Measurement Basis                                                             | March 31, 2019 | December 31, 2018 |
|----------------------------------------------------------------|-----------------------------------------------------------------------|-------------------------------------------------------------------------------|----------------|-------------------|
|                                                                | Assets                                                                | (dollars in thousands)                                                        |                |                   |
| Securities                                                     | Agency mortgage-backed securities <sup>(2)</sup>                      | Fair value, with unrealized gains (losses) through other comprehensive income | \$ 102,222,237 | \$ 89,840,322     |
| Securities                                                     | Agency mortgage-backed securities <sup>(3)</sup>                      | Fair value, with unrealized gains (losses) through earnings                   | 871,289        | 912,673           |
| Securities                                                     | Credit risk transfer securities                                       | Fair value, with unrealized gains (losses) through earnings                   | 607,945        | 552,097           |
| Securities                                                     | Non-agency mortgage-backed securities                                 | Fair value, with unrealized gains (losses) through earnings                   | 1,116,569      | 1,161,938         |
| Securities                                                     | Commercial real estate debt investments - CMBS                        | Fair value, with unrealized gains (losses) through other comprehensive income | 96,566         | 138,242           |
| Securities                                                     | Commercial real estate debt investments - CMBS <sup>(4)</sup>         | Fair value, with unrealized gains (losses) through earnings                   | 78,665         | 18,516            |
| Total securities                                               |                                                                       |                                                                               | 104,993,271    | 92,623,788        |
| Loans, net                                                     | Residential mortgage loans                                            | Fair value, with unrealized gains (losses) through earnings                   | 1,311,720      | 1,359,806         |
| Loans, net                                                     | Commercial real estate debt and preferred equity, held for investment | Amortized cost                                                                | 722,962        | 1,296,803         |
| Loans, net                                                     | Commercial loans held for sale, net                                   | Lower of amortized cost or fair value                                         | 42,035         | 42,184            |
| Loans, net                                                     | Corporate debt                                                        | Amortized cost                                                                | 1,758,082      | 1,887,182         |
| Loans, net                                                     | Corporate debt held for sale, net                                     | Lower of amortized cost or fair value                                         | 44,525         | —                 |
| Total loans, net                                               |                                                                       |                                                                               | 3,879,324      | 4,585,975         |
| Assets transferred or pledged to securitization vehicles       | Residential mortgage loans                                            | Fair value, with unrealized gains (losses) through earnings                   | 1,425,668      | 1,094,831         |
| Assets transferred or pledged to securitization vehicles       | Commercial mortgage loans                                             | Fair value, with unrealized gains (losses) through earnings                   | 2,939,632      | 2,738,369         |
| Total assets transferred or pledged to securitization vehicles |                                                                       |                                                                               | 4,365,300      | 3,833,200         |
| Reverse repurchase agreements                                  | Reverse repurchase agreements                                         | Amortized cost                                                                | 523,449        | 650,040           |
|                                                                | Liabilities                                                           |                                                                               |                |                   |
| Repurchase agreements                                          | Repurchase agreements                                                 | Amortized cost                                                                | 88,554,170     | 81,115,874        |
| Other secured financing                                        | Loans                                                                 | Amortized cost                                                                | 4,144,623      | 4,183,311         |
|                                                                | Securities                                                            |                                                                               | 3,693,766      | 3,347,062         |

| Debt issued by securitization vehicles                                                                                                                    |       | Fair value, with unrealized gains (losses) through earnings |         |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------|-------|-------------------------------------------------------------|---------|
| Mortgages payable                                                                                                                                         | Loans | Amortized cost                                              |         |
|                                                                                                                                                           |       | 510,386                                                     | 511,056 |
| (1) Receivable for unsettled trades, Interest receivable, Payable for unsettled trades, Interest payable and Dividends payable are accounted for at cost. |       |                                                             |         |
| (2) Includes Agency pass-through, collateralized mortgage obligation ("CMO") and multifamily securities.                                                  |       |                                                             |         |
| (3) Includes interest-only securities and reverse mortgages.                                                                                              |       |                                                             |         |
| (4) Includes conduit CMBS.                                                                                                                                |       |                                                             |         |

## 5. SECURITIES

The Company's investments in securities include agency, credit risk transfer, non-agency and commercial mortgage-backed securities. All of the debt securities are classified as available-for-sale. Available-for-sale securities are carried at fair value, with changes in fair value recognized in other comprehensive income, unless the fair value option is elected in which case changes in fair value are recognized in Net unrealized gains (losses) on instruments measured at fair value through earnings in the Consolidated Statements of Comprehensive Income (Loss). Transactions for securities are recorded on trade date, including TBA securities that meet the regular-way securities scope exception from derivative accounting. Gains and losses on disposals of securities are recorded on trade date based on the specific identification method.

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Other-Than-Temporary Impairment – Management evaluates available-for-sale securities and held-to-maturity debt securities for other-than-temporary impairment at least quarterly, and more frequently when economic or market conditions warrant such evaluation.

When the fair value of an available-for-sale security is less than its amortized cost, the security is considered impaired. For securities that are impaired, the Company determines if it (1) has the intent to sell the security, (2) is more likely than not that it will be required to sell the security before recovery of its amortized cost basis, or (3) does not expect to recover the entire amortized cost basis of the security. Further, the security is analyzed for credit loss (the difference between the present value of cash flows expected to be collected and the amortized cost basis). The credit loss, if any, will then be recognized in the Consolidated Statements of Comprehensive Income (Loss), while the balance of losses related to other factors will be recognized as a component of Other comprehensive income (loss). When the fair value of a held-to-maturity security is less than the cost, the Company performs an analysis to determine whether it expects to recover the entire cost basis of the security. There was no other-than-temporary impairment recognized for the three months ended March 31, 2019 and 2018.

Agency Mortgage-Backed Securities - The Company invests in mortgage pass-through certificates, collateralized mortgage obligations and other MBS representing interests in or obligations backed by pools of residential or multifamily mortgage loans and certificates. Many of the underlying loans and certificates are guaranteed by the Government National Mortgage Association (“Ginnie Mae”), the Federal Home Loan Mortgage Corporation (“Freddie Mac”) or the Federal National Mortgage Association (“Fannie Mae”) (collectively, “Agency mortgage-backed securities”). Agency mortgage-backed securities may include forward contracts for Agency mortgage-backed securities purchases or sales of a generic pool, on a to-be-announced basis (“TBA securities”). TBA securities without intent to accept delivery (“TBA derivatives”), are accounted for as derivatives as discussed in the “Derivative Instruments” Note. CRT Securities - CRT securities are risk sharing instruments issued by Fannie Mae and Freddie Mac, and similarly structured transactions arranged by third party market participants. CRT securities are designed to synthetically transfer mortgage credit risk from Fannie Mae and Freddie Mac to private investors.

Non-Agency Mortgage-Backed Securities- The Company invests in non-Agency mortgage-backed securities such as those issued in prime loan, Alt-A loan, subprime loan, non-performing loan (“NPL”) and re-performing loan (“RPL”) securitizations.

Agency mortgage-backed securities, non-Agency mortgage-backed securities and CRT securities are referred to herein as “Residential Securities.” Although the Company generally intends to hold most of its Residential Securities until maturity, it may, from time to time, sell any of its Residential Securities as part of the overall management of its portfolio.

Commercial Mortgage-Backed Securities (“Commercial Securities”) - Certain commercial mortgage-backed securities are classified as available-for-sale and reported at fair value with unrealized gains and losses reported as a component of Other comprehensive income (loss). Management evaluates such Commercial Securities for other-than-temporary impairment at least quarterly. The Company elected the fair value option on certain Commercial Securities, including conduit commercial mortgage-backed securities, to simplify the accounting where the unrealized gains and losses on these financial instruments are recorded through earnings.

The following represents a rollforward of the activity for the Company’s securities:

March 31, 2019

|                             | Residential<br>Securities | Commercial<br>Securities | Total         |
|-----------------------------|---------------------------|--------------------------|---------------|
|                             | (dollars in thousands)    |                          |               |
| Beginning balance January 1 | \$92,467,030              | \$ 156,758               | \$92,623,788  |
| Purchases                   | 23,649,271                | 98,633                   | 23,747,904    |
| Sales                       | (10,456,466 )             | (39,834 )                | (10,496,300 ) |
| Principal paydowns          | (2,343,260 )              | (42,859 )                | (2,386,119 )  |
| Amortization / accretion    | (247,447 )                | 78                       | (247,369 )    |
| Fair value adjustment       | 1,748,912                 | 2,455                    | 1,751,367     |

|                         |                |            |                |
|-------------------------|----------------|------------|----------------|
| Ending balance March 31 | \$ 104,818,040 | \$ 175,231 | \$ 104,993,271 |
|-------------------------|----------------|------------|----------------|

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## ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

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The following tables present the Company's Residential Investment Securities portfolio that was carried at their fair value at March 31, 2019 and December 31, 2018:

|                                               | March 31, 2019                                    |                      |                       |                   |                     |                      |                         |
|-----------------------------------------------|---------------------------------------------------|----------------------|-----------------------|-------------------|---------------------|----------------------|-------------------------|
|                                               | Principal /<br>Notional<br>(dollars in thousands) | Remaining<br>Premium | Remaining<br>Discount | Amortized<br>Cost | Unrealized<br>Gains | Unrealized<br>Losses | Estimated<br>Fair Value |
| Agency                                        |                                                   |                      |                       |                   |                     |                      |                         |
| Fixed-rate<br>pass-through                    | \$92,064,633                                      | \$4,060,260          | \$(41,614 )           | \$96,083,279      | \$789,557           | \$(1,118,629)        | \$95,754,207            |
| Adjustable-rate<br>pass-through               | 4,046,258                                         | 204,672              | (1,317 )              | 4,249,613         | 7,395               | (104,972 )           | 4,152,036               |
| CMO                                           | 10,699                                            | 50                   | —                     | 10,749            | 199                 | —                    | 10,948                  |
| Interest-only                                 | 5,522,373                                         | 1,070,160            | —                     | 1,070,160         | 1,900               | (239,282 )           | 832,778                 |
| Multifamily                                   | 2,186,848                                         | 18,783               | (5,249 )              | 2,200,382         | 104,664             | —                    | 2,305,046               |
| Reverse mortgages                             | 34,415                                            | 4,031                | —                     | 38,446            | 68                  | (3 )                 | 38,511                  |
| Total agency securities                       | \$103,865,226                                     | \$5,357,956          | \$(48,180 )           | \$103,652,629     | \$903,783           | \$(1,462,886)        | \$103,093,526           |
| Residential credit                            |                                                   |                      |                       |                   |                     |                      |                         |
| CRT                                           | \$593,949                                         | \$24,891             | \$(16,883 )           | \$601,957         | \$9,488             | \$(3,500 )           | \$607,945               |
| Alt-A                                         | 215,630                                           | 374                  | (30,467 )             | 185,537           | 12,926              | (95 )                | 198,368                 |
| Prime                                         | 312,534                                           | 2,205                | (21,319 )             | 293,420           | 16,786              | (179 )               | 310,027                 |
| Subprime                                      | 393,362                                           | 1,480                | (61,911 )             | 332,931           | 38,800              | (446 )               | 371,285                 |
| NPL/RPL                                       | 3,431                                             | —                    | (22 )                 | 3,409             | 27                  | —                    | 3,436                   |
| Prime jumbo (>=2010<br>vintage)               | 220,289                                           | 1,070                | (4,626 )              | 216,733           | 3,004               | (915 )               | 218,822                 |
| Prime jumbo (>=2010<br>vintage) Interest-only | 837,030                                           | 12,445               | —                     | 12,445            | 2,517               | (331 )               | 14,631                  |
| Total residential credit<br>securities        | \$2,576,225                                       | \$42,465             | \$(135,228)           | \$1,646,432       | \$83,548            | \$(5,466 )           | \$1,724,514             |
| Total residential<br>securities               | \$106,441,451                                     | \$5,400,421          | \$(183,408)           | \$105,299,061     | \$987,331           | \$(1,468,352)        | \$104,818,040           |
| Commercial                                    |                                                   |                      |                       |                   |                     |                      |                         |
| Commercial securities                         | \$180,992                                         | \$497                | \$(9,513 )            | \$171,976         | \$3,546             | \$(291 )             | \$175,231               |
| Total securities                              | \$106,622,443                                     | \$5,400,918          | \$(192,921)           | \$105,471,037     | \$990,877           | \$(1,468,643)        | \$104,993,271           |

|                                 | December 31, 2018                                 |                      |                       |                   |                     |                      |                         |
|---------------------------------|---------------------------------------------------|----------------------|-----------------------|-------------------|---------------------|----------------------|-------------------------|
|                                 | Principal /<br>Notional<br>(dollars in thousands) | Remaining<br>Premium | Remaining<br>Discount | Amortized<br>Cost | Unrealized<br>Gains | Unrealized<br>Losses | Estimated<br>Fair Value |
| Agency                          |                                                   |                      |                       |                   |                     |                      |                         |
| Fixed-rate<br>pass-through      | \$81,144,650                                      | \$3,810,808          | \$(36,987 )           | \$84,918,471      | \$264,443           | \$(2,130,362)        | \$83,052,552            |
| Adjustable-rate<br>pass-through | 4,835,983                                         | 247,981              | (1,337 )              | 5,082,627         | 7,127               | (151,770 )           | 4,937,984               |
| CMO                             | 11,113                                            | 53                   | —                     | 11,166            | 55                  | —                    | 11,221                  |
| Interest-only                   | 6,007,008                                         | 1,179,855            | —                     | 1,179,855         | 1,446               | (307,412 )           | 873,889                 |
| Multifamily                     | 1,802,292                                         | 12,329               | (5,332 )              | 1,809,289         | 32,753              | (3,477 )             | 1,838,565               |
| Reverse mortgages               | 34,650                                            | 4,175                | —                     | 38,825            | 69                  | (110 )               | 38,784                  |
| Total agency<br>investments     | \$93,835,696                                      | \$5,255,201          | \$(43,656 )           | \$93,040,233      | \$305,893           | \$(2,593,131)        | \$90,752,995            |
| Residential credit              |                                                   |                      |                       |                   |                     |                      |                         |

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|                                            |              |             |              |              |           |                |              |
|--------------------------------------------|--------------|-------------|--------------|--------------|-----------|----------------|--------------|
| CRT                                        | \$542,374    | \$28,444    | \$(15,466 )  | \$555,352    | \$7,879   | \$(11,134 )    | \$552,097    |
| Alt-A                                      | 202,889      | 349         | (31,238 )    | 172,000      | 10,559    | (198 )         | 182,361      |
| Prime                                      | 353,108      | 2,040       | (23,153 )    | 331,995      | 12,821    | (830 )         | 343,986      |
| Subprime                                   | 423,166      | 1,776       | (65,005 )    | 359,937      | 35,278    | (594 )         | 394,621      |
| NPL/RPL                                    | 3,431        | —           | (30 )        | 3,401        | 37        | —              | 3,438        |
| Prime jumbo (>=2010 vintage)               | 225,567      | 1,087       | (4,691 )     | 221,963      | 1,439     | (2,744 )       | 220,658      |
| Prime jumbo (>=2010 vintage) Interest-only | 860,085      | 12,820      | —            | 12,820       | 4,054     | —              | 16,874       |
| Total residential credit securities        | \$2,610,620  | \$46,516    | \$(139,583 ) | \$1,657,468  | \$72,067  | \$(15,500 )    | \$1,714,035  |
| Total residential securities               | \$96,446,316 | \$5,301,717 | \$(183,239 ) | \$94,697,701 | \$377,960 | \$(2,608,631 ) | \$92,467,030 |
| Commercial                                 |              |             |              |              |           |                |              |
| Commercial securities                      | \$155,921    | \$9,778     | \$(9,740 )   | \$155,959    | \$1,659   | \$(860 )       | \$156,758    |
| Total securities                           | \$96,602,237 | \$5,311,495 | \$(192,979 ) | \$94,853,660 | \$379,619 | \$(2,609,491 ) | \$92,623,788 |

## ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

## Item 1. Financial Statements

The following table presents the Company's Agency mortgage-backed securities portfolio by issuing Agency concentration at March 31, 2019 and December 31, 2018:

|                                        | March 31,<br>2019 | December 31,<br>2018 |
|----------------------------------------|-------------------|----------------------|
| Investment Type (dollars in thousands) |                   |                      |
| Fannie Mae                             | \$66,385,692      | \$60,270,432         |
| Freddie Mac                            | 36,564,254        | 30,397,556           |
| Ginnie Mae                             | 143,580           | 85,007               |
| Total                                  | \$103,093,526     | \$90,752,995         |

Actual maturities of the Company's Residential Securities are generally shorter than stated contractual maturities because actual maturities of the portfolio are generally affected by periodic payments and prepayments of principal on the underlying mortgages.

The following table summarizes the Company's Residential Securities at March 31, 2019 and December 31, 2018, according to their estimated weighted average life classifications:

|                                           | March 31, 2019          |                   | December 31, 2018       |                   |
|-------------------------------------------|-------------------------|-------------------|-------------------------|-------------------|
|                                           | Estimated<br>Fair Value | Amortized<br>Cost | Estimated<br>Fair Value | Amortized<br>Cost |
| (dollars in thousands)                    |                         |                   |                         |                   |
| Estimated weighted average life           |                         |                   |                         |                   |
| Less than one year                        | \$13,863                | \$14,032          | \$13,447                | \$13,670          |
| Greater than one year through five years  | 16,081,685              | 16,091,945        | 11,710,172              | 11,928,973        |
| Greater than five years through ten years | 87,693,108              | 88,181,059        | 80,202,479              | 82,218,464        |
| Greater than ten years                    | 1,029,384               | 1,012,025         | 540,932                 | 536,594           |
| Total                                     | \$104,818,040           | \$105,299,061     | \$92,467,030            | \$94,697,701      |

The estimated weighted average lives of the Residential Securities at March 31, 2019 and December 31, 2018 in the table above are based upon projected principal prepayment rates. The actual weighted average lives of the Residential Securities could be longer or shorter than projected.

The following table presents the gross unrealized losses and estimated fair value of the Company's Agency mortgage-backed securities, accounted for as available-for-sale where the fair value option has not been elected, by length of time that such securities have been in a continuous unrealized loss position at March 31, 2019 and December 31, 2018.

|                        | March 31, 2019                 |                                   |                                   | December 31, 2018              |                                   |                                   |
|------------------------|--------------------------------|-----------------------------------|-----------------------------------|--------------------------------|-----------------------------------|-----------------------------------|
|                        | Estimated<br>Fair Value<br>(1) | Gross<br>Unrealized<br>Losses (1) | Number<br>of<br>Securities<br>(1) | Estimated<br>Fair Value<br>(1) | Gross<br>Unrealized<br>Losses (1) | Number<br>of<br>Securities<br>(1) |
| (dollars in thousands) |                                |                                   |                                   |                                |                                   |                                   |
| Less than 12 months    | \$12,188,284                   | \$(197,039)                       | 89                                | \$22,418,036                   | \$(432,352)                       | 713                               |
| 12 Months or more      | 42,463,903                     | (1,026,562)                       | 1,513                             | 43,134,843                     | (1,853,257)                       | 1,476                             |
| Total                  | \$54,652,187                   | \$(1,223,601)                     | 1,602                             | \$65,552,879                   | \$(2,285,609)                     | 2,189                             |

(1) Excludes interest-only mortgage-backed securities and reverse mortgages.

The decline in value of these securities is solely due to market conditions and not the quality of the assets. Substantially all of the Agency mortgage-backed securities are "AAA" rated or carry an implied "AAA" rating. The investments are not considered to be other-than-temporarily impaired because the Company currently has the ability and intent to hold the investments to maturity or for a period of time sufficient for a forecasted market price recovery up to or beyond the cost of the investments, and it is not more likely than not that the Company will be required to sell the investments before recovery of the amortized cost bases, which may be maturity.

During the three months ended March 31, 2019 and 2018, the Company disposed of \$10.5 billion and \$463.4 million of Residential Securities, resulting in net realized gains (losses) of (\$92.5) million and \$13.0 million, respectively.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

Item 1. Financial Statements

6. LOANS

The Company invests in residential, commercial and corporate loans. Loans are classified as either held for investment or held for sale. Loans are also eligible to be accounted for under the fair value option. Excluding loans transferred or pledged to securitization vehicles, as of March 31, 2019, the Company reported \$1.3 billion of loans for which the fair value option was elected. If loans are held for investment and the fair value option has not been elected, they are accounted for at amortized cost less impairment. If the Company intends to sell or securitize the loans and the securitization vehicle is not expected to be consolidated, the loans are classified as held for sale. If loans are held for sale and the fair value option was not elected, they are accounted for at the lower of cost or fair value. Any origination fees and costs or purchase premiums or discounts are deferred and recognized upon sale. The Company determines the fair value of loans held for sale on an individual loan basis.

**Nonaccrual Status** – If collection of a loan’s principal or interest is in doubt or the loan is 90 days or more past due, interest income is not accrued. For nonaccrual status loans carried at fair value or held for sale, interest is not accrued, but is recognized on a cash basis. For nonaccrual status loans carried at amortized cost, if collection of principal is not in doubt, but collection of interest is in doubt, interest income is recognized on a cash basis. If collection of principal is in doubt, any interest received is applied against principal until collectability of the remaining balance is no longer in doubt; at that point, any interest income is recognized on a cash basis. Generally, a loan is returned to accrual status when the borrower has resumed paying the full amount of the scheduled contractual obligation, if all principal and interest amounts contractually due are reasonably assured of repayment within a reasonable period of time and there is a sustained period of repayment performance by the borrower.

**Allowance for Losses** – The Company evaluates the need for a loss reserve on its loans. A provision for loan losses may be established when it is probable the Company will not collect amounts contractually due or all amounts previously estimated to be collectible. Management assesses the credit quality of the portfolio and adequacy of loan loss reserves on a quarterly basis, or more frequently as necessary. Significant judgment is required in this analysis. Depending on the expected recovery of its investment, the Company considers the estimated net recoverable value of the loans as well as other factors, including but not limited to the fair value of any collateral, the amount and the status of any senior debt, the prospects for the borrower and the competitive landscape where the borrower conducts business. To determine if loan loss allowances are required on investments in corporate debt, the Company reviews the monthly and/or quarterly financial statements of the borrowers, verifies loan compliance packages, if applicable, and analyzes current results relative to budgets and sensitivities performed at inception of the investment. Because these determinations are based upon projections of future economic events, which are inherently subjective, the amounts ultimately realized may differ materially from the carrying value as of the reporting date.

The Company may be exposed to various levels of credit risk depending on the nature of its investments and credit enhancements, if any, supporting its assets. The Company’s core investment process includes procedures related to the initial approval and periodic monitoring of credit risk and other risks associated with each investment. The Company’s investment underwriting procedures include evaluation of the underlying borrowers’ ability to manage and operate their respective properties or companies. Management reviews loan-to-value metrics at origination or acquisition of a new investment and if events occur that trigger re-evaluation by management.

Management generally reviews the most recent financial information produced by the borrower, which may include, but is not limited to, net operating income (“NOI”), debt service coverage ratios, property debt yields (net cash flow or NOI divided by the amount of outstanding indebtedness), loan per unit and rent rolls relating to each of the Company’s commercial real estate loans and preferred equity interests (“CRE Debt and Preferred Equity Investments”), and may consider other factors management deems important. Management also reviews market pricing to determine each borrower’s ability to refinance their respective assets at the maturity of each loan, economic trends (both macro and those affecting the property specifically), and the supply and demand of competing projects in the sub-market in which each subject property is located. Management monitors the financial condition and operating results of its borrowers and continually assesses the future outlook of the borrower’s financial performance in light of industry developments, management changes and company-specific considerations.

The Company's internal loan risk ratings are based on the guidance provided by the Office of the Comptroller of the Currency for commercial real estate lending. The Company's internal risk rating categories include "Performing", "Performing - Closely Monitored", "Performing - Special Mention", "Substandard", "Doubtful" or "Loss". Performing loans meet all present contractual obligations. Performing - Closely Monitored loans meet all present contractual obligations, but are transitional or could be exhibiting some weakness in both leverage and liquidity. Performing - Special Mention loans meet all present contractual obligations, but exhibit potential weakness that deserves management's close attention and if uncorrected, may result in deterioration of repayment prospects. Substandard loans are inadequately protected by sound worth and paying capacity of the obligor or of the collateral pledged with a distinct possibility that loss will be sustained if some of the deficiencies are not corrected. Doubtful loans are Substandard loans whereby collection of all contractual principal and interest is highly questionable or improbable. Loss loans are considered uncollectible.

For the three months ended March 31, 2019, the Company recorded a loan loss provision of \$5.7 million.

## ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

## Item 1. Financial Statements

As of March 31, 2019 and December 31, 2018, the Company's loan loss provision was \$9.2 million and \$3.5 million, respectively. There was no provision for loan loss recorded as of and for three months ended March 31, 2018. The following table presents the activity of the Company's loan investments, including loans held for sale, for the three months ended March 31, 2019:

|                                    | Residential            | Commercial  | Corporate   | Total        |
|------------------------------------|------------------------|-------------|-------------|--------------|
|                                    | (dollars in thousands) |             |             |              |
| Beginning balance January 1, 2019  | \$1,359,806            | \$1,338,987 | \$1,887,182 | \$4,585,975  |
| Purchases                          | 425,488                | 165,258     | 125,351     | 716,097      |
| Sales and transfers <sup>(1)</sup> | (444,963 )             | (733,922 )  | (179,112 )  | (1,357,997 ) |
| Principal Payments                 | (32,676 )              | (534 )      | (33,545 )   | (66,755 )    |
| Gains / (losses)                   | 4,460                  | (5,703 )    | —           | (1,243 )     |
| Amortization / accretion           | (395 )                 | 911         | 2,731       | 3,247        |
| Ending balance March 31, 2019      | \$1,311,720            | \$764,997   | \$1,802,607 | \$3,879,324  |

<sup>(1)</sup> Includes securitizations, syndications and transfers to securitization vehicles.

The carrying value of the Company's residential loans held for sale was \$101.3 million and \$97.5 million at March 31, 2019 and December 31, 2018, respectively. The carrying value of the Company's commercial loans held for sale was \$42.0 million and \$42.2 million at March 31, 2019 and December 31, 2018, respectively. The carrying value of the Company's corporate loans held for sale was \$44.5 million at March 31, 2019.

## Residential

The Company's residential mortgage loans are primarily comprised of performing adjustable-rate and fixed-rate whole loans. Additionally, the Company consolidates a collateralized financing entity that securitized prime adjustable-rate jumbo residential mortgage loans. The Company also consolidates securitization trusts in which it had purchased subordinated securities because it also has certain powers and rights to direct the activities of such trusts. Please refer to the "Variable Interest Entities" Note for further information related to the Company's consolidated Residential Mortgage Loan Trusts.

The following table presents the fair value and the unpaid principal balances of the residential mortgage loan portfolio, including loans transferred or pledged to securitization vehicles, at March 31, 2019 and December 31, 2018:

|                          | March 31, 2019         | December 31, 2018 |
|--------------------------|------------------------|-------------------|
|                          | (dollars in thousands) |                   |
| Fair value               | \$2,737,388            | \$2,454,637       |
| Unpaid principal balance | \$2,686,557            | \$2,425,657       |

The following table provides information regarding the line items and amounts recognized in the Consolidated Statements of Comprehensive Income (loss) for the three months ended March 31, 2019 and 2018 for these investments:

|                                                                                      | For the Three Months Ended |                |
|--------------------------------------------------------------------------------------|----------------------------|----------------|
|                                                                                      | March 31, 2019             | March 31, 2018 |
|                                                                                      | (dollars in thousands)     |                |
| Interest income                                                                      | \$29,991                   | \$13,495       |
| Net gains (losses) on disposal of investments                                        | (5,223 )                   | (1,758 )       |
| Net unrealized gains (losses) on instruments measured at fair value through earnings | 17,821                     | (9,864 )       |
| Total included in net income (loss)                                                  | \$42,589                   | \$1,873        |



## ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

## Item 1. Financial Statements

The following table provides the geographic concentrations based on the unpaid principal balances at March 31, 2019 and December 31, 2018 for the residential mortgage loans, including loans transferred or pledged to securitization vehicles:

## Geographic Concentrations of Residential Mortgage Loans

| March 31, 2019                                |              | December 31, 2018                             |              |
|-----------------------------------------------|--------------|-----------------------------------------------|--------------|
| Property location                             | % of Balance | Property location                             | % of Balance |
| California                                    | 54.2%        | California                                    | 53.7%        |
| Florida                                       | 6.7%         | Florida                                       | 7.1%         |
| New York                                      | 6.1%         | New York                                      | 6.6%         |
| All other (none individually greater than 5%) | 33.0%        | All other (none individually greater than 5%) | 32.6%        |
| Total                                         | 100.0%       |                                               | 100.0%       |

The following table provides additional data on the Company's residential mortgage loans, including loans transferred or pledged to securitization vehicles, at March 31, 2019 and December 31, 2018:

|                                         | March 31, 2019         |                            | December 31, 2018    |                            |
|-----------------------------------------|------------------------|----------------------------|----------------------|----------------------------|
|                                         | Portfolio Range        | Portfolio Weighted Average | Portfolio Range      | Portfolio Weighted Average |
|                                         | (dollars in thousands) |                            |                      |                            |
| Unpaid principal balance                | \$1 - \$3,448          | \$457                      | \$0 - \$3,500        | \$457                      |
| Interest rate                           | 2.00% - 9.25%          | 4.85%                      | 2.00% - 7.75%        | 4.72%                      |
| Maturity                                | 1/1/2028 - 1/1/2059    | 6/24/2046                  | 1/1/2028 - 11/1/2058 | 1/11/2046                  |
| FICO score at loan origination          | 505 - 823              | 752                        | 505 - 823            | 752                        |
| Loan-to-value ratio at loan origination | 8% - 111%              | 68%                        | 8% - 111%            | 68%                        |

At March 31, 2019 and December 31, 2018, approximately 45% and 47%, respectively, of the carrying value of the Company's residential mortgage loans, including loans transferred or pledged to securitization vehicles, were adjustable-rate.

## Commercial

The Company's commercial real estate loans are comprised of adjustable-rate and fixed-rate loans. The difference between the principal amount of a loan and proceeds at acquisition is recorded as either a discount or premium. Commercial real estate loans that are designated as held for investment and are originated or purchased by the Company are carried at their outstanding principal balance, net of unamortized origination fees and costs, premiums or discounts, less an allowance for losses, if necessary. Origination fees and costs, premiums or discounts are amortized into interest income over the life of the loan.

Preferred equity interests are designated as held for investment and are carried at their outstanding principal balance, net of unamortized origination fees and costs, premiums or discounts, less a reserve for estimated losses, if necessary. At March 31, 2019, and December 31, 2018, approximately 90% and 88%, respectively, of the carrying value of the Company's CRE Debt and Preferred Equity Investments, including loans transferred or pledged to securitization vehicles and excluding commercial loans held for sale, were adjustable-rate.

At March 31, 2019 and December 31, 2018, commercial real estate investments held for investment were comprised of the following:

| March 31, 2019        |                               | Percentage of Loan | December 31, 2018     |                               | Percentage of Loan |
|-----------------------|-------------------------------|--------------------|-----------------------|-------------------------------|--------------------|
| Outstanding Principal | Carrying Value <sup>(1)</sup> |                    | Outstanding Principal | Carrying Value <sup>(1)</sup> |                    |

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|                                             | Portfolio<br>(2)       |             |       |   | Portfolio<br>(2) |             |       |   |
|---------------------------------------------|------------------------|-------------|-------|---|------------------|-------------|-------|---|
|                                             | (dollars in thousands) |             |       |   |                  |             |       |   |
| Senior mortgages                            | \$405,968              | \$403,497   | 27.6  | % | \$988,248        | \$981,202   | 75.6  | % |
| Senior securitized mortgages <sup>(3)</sup> | 739,058                | 733,864     | 50.1  | % | —                | —           | —     | % |
| Mezzanine loans                             | 329,262                | 319,465     | 22.3  | % | 319,663          | 315,601     | 24.4  | % |
| Total                                       | \$1,474,288            | \$1,456,826 | 100.0 | % | \$1,307,911      | \$1,296,803 | 100.0 | % |

(1) Carrying value includes unamortized origination fees of \$8.3 million and \$7.6 million at March 31, 2019 and December 31, 2018, respectively.

(2) Based on outstanding principal.

(3) Assets of consolidated VIEs.

## ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

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The following tables represent a rollforward of the activity for the Company's commercial real estate investments held for investment at March 31, 2019 and December 31, 2018:

March 31, 2019

|                                             | Senior<br>Mortgages | Senior<br>Securitized<br>Mortgages<br>(1) | Mezzanine<br>Loans | Total       |
|---------------------------------------------|---------------------|-------------------------------------------|--------------------|-------------|
| (dollars in thousands)                      |                     |                                           |                    |             |
| Net carrying value (January 1, 2019)        | \$981,202           | \$—                                       | \$315,601          | \$1,296,803 |
| Originations & advances (principal)         | 148,341             | 739,058                                   | 18,274             | 905,673     |
| Principal payments                          | (385 )              | —                                         | —                  | (385 )      |
| Transfers                                   | (730,235 )          | —                                         | (8,675 )           | (738,910 )  |
| Net (increase) decrease in origination fees | 3,815               | (5,488 )                                  | (184 )             | (1,857 )    |
| Amortization of net origination fees        | 759                 | 294                                       | 152                | 1,205       |
| Allowance for loan losses                   | —                   | —                                         | (5,703 )           | (5,703 )    |
| Net carrying value (March 31, 2019)         | \$403,497           | \$733,864                                 | \$319,465          | \$1,456,826 |

|                                             | Senior<br>Mortgages | Mezzanine<br>Loans | Preferred<br>Equity | Total       |
|---------------------------------------------|---------------------|--------------------|---------------------|-------------|
| (dollars in thousands)                      |                     |                    |                     |             |
| Net carrying value (January 1, 2018)        | \$625,900           | \$394,442          | \$8,985             | \$1,029,327 |
| Originations & advances (principal)         | 575,953             | 52,224             | —                   | 628,177     |
| Principal payments                          | (216,849 )          | (127,575 )         | (9,000 )            | (353,424 )  |
| Net (increase) decrease in origination fees | (6,624 )            | (370 )             | —                   | (6,994 )    |
| Amortization of net origination fees        | 2,822               | 376                | 15                  | 3,213       |
| Allowance for loan losses                   | —                   | (3,496 )           | —                   | (3,496 )    |
| Net carrying value (December 31, 2018)      | \$981,202           | \$315,601          | \$—                 | \$1,296,803 |

(1) Assets of consolidated VIEs.

The following table provides the internal loan risk ratings of commercial real estate investments held for investment as of March 31, 2019 and December 31, 2018.

March 31, 2019

| Investment Type                             | Outstanding Principal | Internal Ratings                    |                   |                              |                              |                 |              |      | Total       |  |
|---------------------------------------------|-----------------------|-------------------------------------|-------------------|------------------------------|------------------------------|-----------------|--------------|------|-------------|--|
|                                             |                       | Debt and Preferred Equity Portfolio | Percentage of CRE |                              |                              |                 |              | Loss |             |  |
|                                             |                       |                                     | Performing        | Performing Closely Monitored | Performing - Special Mention | Substandard (1) | Doubtful (2) |      |             |  |
| (dollars in thousands)                      |                       |                                     |                   |                              |                              |                 |              |      |             |  |
| Senior mortgages                            | \$405,968             | 27.6 %                              | \$276,479         | \$65,099                     | \$—                          | \$ 64,390       | \$—          | \$ — | \$405,968   |  |
| Senior securitized mortgages <sup>(3)</sup> | 739,058               | 50.1 %                              | 466,258           | 217,800                      | 55,000                       | —               | —            | —    | 739,058     |  |
| Mezzanine loans                             | 329,262               | 22.3 %                              | 139,721           | 49,538                       | 96,400                       | —               | 43,603       | —    | 329,262     |  |
| Total                                       | \$1,474,288           | 100.0 %                             | \$882,458         | \$332,437                    | \$151,400                    | \$ 64,390       | \$43,603     | —    | \$1,474,288 |  |



## ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

## Item 1. Financial Statements

December 31, 2018

| Investment Type        | Outstanding Principal | Internal Ratings                    |                   |                   |                              |                 |           |              | Loss | Total        |
|------------------------|-----------------------|-------------------------------------|-------------------|-------------------|------------------------------|-----------------|-----------|--------------|------|--------------|
|                        |                       | Debt and Preferred Equity Portfolio | Percentage of CRE |                   |                              |                 |           | Doubtful (2) |      |              |
|                        |                       |                                     | Performing        | Closely Monitored | Performing - Special Mention | Substandard (1) |           |              |      |              |
| (dollars in thousands) |                       |                                     |                   |                   |                              |                 |           |              |      |              |
| Senior mortgages       | \$988,248             | 75.6                                | %                 | \$653,066         | \$215,792                    | \$55,000        | \$64,390  | \$—          | \$   | —\$988,248   |
| Mezzanine loans        | 319,663               | 24.4                                | %                 | 140,776           | 38,884                       | 96,400          | 36,603    | 7,000        | —    | 319,663      |
| Total                  | \$1,307,911           | 100.0                               | %                 | \$793,842         | \$254,676                    | \$151,400       | \$100,993 | \$7,000      | \$   | —\$1,307,911 |

(1) The Company rated one loan as of March 31, 2019 and two loans as of December 31, 2018 as Substandard. The Company evaluated whether an impairment exists and determined in each case that, based on quantitative and qualitative factors, the Company expects repayment of contractual amounts due.

The Company rated two loans as Doubtful and evaluated for impairment for which a loan loss allowance of \$5.7 million was recognized for the three months ended March 31, 2019. The Company rated one loan as Doubtful and evaluated for impairment for which a loan loss allowance of \$3.5 million was recognized for the three months ended December 31, 2018.

(3) Assets of consolidated VIEs.

## Corporate Debt

The Company's investments in corporate loans typically take the form of senior secured loans primarily in first or second lien positions. The Company's senior secured loans generally have stated maturities of five to seven years. In connection with these senior secured loans the Company receives a security interest in certain assets of the borrower and such assets support repayment of such loans. Senior secured loans are generally exposed to less credit risk than more junior loans given their seniority to scheduled principal and interest and priority of security in the assets of the borrower. Interest income from coupon payments is accrued based upon the outstanding principal amounts of the debt and its contractual terms. Premiums and discounts are amortized or accreted into interest income using the effective interest method.

The Company invests in corporate loans through its Annaly Middle Market Lending Group. The industry and rate attributes of the portfolio at March 31, 2019 and December 31, 2018 are as follows:

## ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

## Item 1. Financial Statements

|                                                                         | Industry Dispersion<br>March 31, 2019 |                           | December 31, 2018 |                           |
|-------------------------------------------------------------------------|---------------------------------------|---------------------------|-------------------|---------------------------|
|                                                                         | Fixed<br>Rate                         | Floating<br>Rate<br>Total | Fixed<br>Rate     | Floating<br>Rate<br>Total |
|                                                                         | (dollars in thousands)                |                           |                   |                           |
| Aircraft and parts                                                      | \$—\$41,394                           | \$41,394                  | \$—\$41,342       | \$41,342                  |
| Arrangement of transportation of freight & cargo                        | —21,715                               | 21,715                    | —21,632           | 21,632                    |
| Coating, engraving and allied services                                  | —54,532                               | 54,532                    | —57,223           | 57,223                    |
| Computer programming, data processing & other computer related services | —282,060                              | 282,060                   | —242,185          | 242,185                   |
| Drugs                                                                   | —35,926                               | 35,926                    | —35,882           | 35,882                    |
| Electrical work                                                         | —41,598                               | 41,598                    | —41,760           | 41,760                    |
| Electronic components & accessories                                     | —24,083                               | 24,083                    | —24,059           | 24,059                    |
| Engineering, architectural & surveying                                  | —109,823                              | 109,823                   | —80,748           | 80,748                    |
| Grocery stores                                                          | —23,394                               | 23,394                    | —23,431           | 23,431                    |
| Insurance agents, brokers and services                                  | —48,661                               | 48,661                    | —48,942           | 48,942                    |
| Mailing, reproduction, commercial art and photography, and stenographic | —14,819                               | 14,819                    | —14,843           | 14,843                    |
| Management and public relations services                                | —312,807                              | 312,807                   | —487,046          | 487,046                   |
| Medical and dental laboratories                                         | —26,811                               | 26,811                    | —26,858           | 26,858                    |
| Metal cans & shipping containers                                        | —118,385                              | 118,385                   | —118,248          | 118,248                   |
| Miscellaneous business services                                         | —19,581                               | 19,581                    | —19,622           | 19,622                    |
| Miscellaneous equipment rental and leasing                              | —49,674                               | 49,674                    | —49,552           | 49,552                    |
| Miscellaneous health and allied services, not elsewhere classified      | —69,217                               | 69,217                    | —56,003           | 56,003                    |
| Miscellaneous plastic products                                          | —10,037                               | 10,037                    | —9,953            | 9,953                     |
| Motor vehicles and motor vehicle equipment                              | —16,417                               | 16,417                    | —16,563           | 16,563                    |
| Motor vehicles and motor vehicle parts and supplies                     | —28,984                               | 28,984                    | —29,046           | 29,046                    |
| Nonferrous foundries (castings)                                         | —12,933                               | 12,933                    | —12,948           | 12,948                    |
| Offices and clinics of doctors of medicine                              | —97,841                               | 97,841                    | —97,877           | 97,877                    |
| Offices of clinics and other health practitioners                       | —21,051                               | 21,051                    | —21,100           | 21,100                    |
| Public warehousing and storage                                          | —97,245                               | 97,245                    | —84,278           | 84,278                    |
| Research, development and testing services                              | —45,676                               | 45,676                    | —33,381           | 33,381                    |
| Schools and educational services, not elsewhere classified              | —19,809                               | 19,809                    | —19,805           | 19,805                    |
| Services allied with the exchange of securities                         | —                                     | —                         | —14,877           | 14,877                    |
| Surgical, medical, and dental instruments and supplies                  | —96,768                               | 96,768                    | —96,607           | 96,607                    |
| Telephone communications                                                | —61,366                               | 61,366                    | —61,371           | 61,371                    |
| Total                                                                   | \$—\$1,802,607                        | \$1,802,607               | \$—\$1,887,182    | \$1,887,182               |

The table below reflects the Company's aggregate positions by their respective place in the capital structure of the borrowers at March 31, 2019 and December 31, 2018.

|                   | March 31,<br>2019      | December 31,<br>2018 |
|-------------------|------------------------|----------------------|
|                   | (dollars in thousands) |                      |
| First lien loans  | \$1,232,524            | \$1,346,356          |
| Second lien loans | 570,083                | 540,826              |
| Total             | \$1,802,607            | \$1,887,182          |

## 7. MORTGAGE SERVICING RIGHTS

The Company owns variable interests in an entity that invests in MSRs; refer to the “Variable Interest Entities” Note for a detailed discussion on this topic.

MSRs represent the rights associated with servicing pools of residential mortgage loans. The Company and its subsidiaries do not originate or directly service residential mortgage loans. Rather, these activities are carried out by duly licensed subservicers who perform substantially all servicing functions for the loans underlying the MSRs. The Company intends to hold the MSRs as investments and elected to account for all of its investments in MSRs at fair value. As such, they are recognized at fair value on the accompanying Consolidated Statements of Financial Condition with changes in the estimated fair value presented as a component of Net unrealized gains (losses) on instruments measured at fair value through earnings in the Consolidated Statements

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of Comprehensive Income (Loss). Servicing income, net of servicing expenses, is reported in Other income (loss) in the Consolidated Statements of Comprehensive Income (Loss).

The following table presents activity related to MSRs for three months ended March 31, 2019 and 2018:

|                                                             | March 31, 2019         | March 31, 2018 |
|-------------------------------------------------------------|------------------------|----------------|
|                                                             | (dollars in thousands) |                |
| Fair value, beginning of period                             | \$557,813              | \$580,860      |
| Change in fair value due to                                 |                        |                |
| Changes in valuation inputs or assumptions <sup>(1)</sup>   | (43,089 )              | 36,674         |
| Other changes, including realization of expected cash flows | (13,979 )              | (21,156 )      |
| Fair value, end of period                                   | \$500,745              | \$596,378      |

<sup>(1)</sup> Principally represents changes in discount rates and prepayment speed inputs used in valuation model, primarily due to changes in interest rates.

For the three months ended March 31, 2019 and 2018, the Company recognized \$27.8 million and \$28.5 million of net servicing income from MSRs in Other income (loss) in the Consolidated Statements of Comprehensive Income (Loss).

## 8. VARIABLE INTEREST ENTITIES

The Company has investments in Freddie Mac securitizations (“FREMF Trusts”) which are structured as pass-through entities that receive principal and interest on the underlying collateral and distribute those payments to the certificate holders. The FREMF Trusts are VIEs and the Company is considered to be the primary beneficiary as a result of its ability to replace the special servicer without cause through its ownership of the Class C Certificates and its current designation as the directing certificate holder. The FREMF Trusts are included in the “Commercial Trusts” in the tables below.

The Company purchased approximately \$94 million of a subordinated tranche in a securitization trust in 2018. As the directing holder, the Company can remove the special servicer with or without cause as well as direct activities that are considered to be most significant to the economic performance of the trust. As such, the Company was determined to be the primary beneficiary and consolidates the trust. The trust is included in “Commercial Trusts” in the tables below.

Upon consolidation, the Company elected the fair value option for the financial assets and liabilities of the Commercial Trusts in order to avoid an accounting mismatch, and to represent more faithfully the economics of its interest in the entities. The fair value option requires that changes in fair value be reflected in the Company’s Consolidated Statements of Comprehensive Income (Loss). The Company applied the practical expedient under ASU 2014-07, whereby the Company determines whether the fair value of the financial assets or financial liabilities is more observable as a basis for measuring the less observable financial instruments. The Company has determined that the fair value of the financial liabilities of the Commercial Trusts are more observable, since the prices for these liabilities are primarily available from third-party pricing services utilized for multifamily mortgage-backed securities, while the individual assets of the trusts are inherently less capable of precise measurement given their illiquid nature and the limitations on available information related to these assets. Given that the Company’s methodology for valuing the financial assets of the Commercial Trusts are an aggregate fair value derived from the fair value of the financial liabilities, the Company has determined that the fair value of each of the financial assets in their entirety should be classified in Level 2 of the fair value measurement hierarchy.

The Commercial Trusts mortgage loans had an aggregate unpaid principal balance of \$2.2 billion at March 31, 2019. At March 31, 2019, there were no loans 90 days or more past due or on nonaccrual status. There is no gain or loss attributable to instrument-specific credit risk of the underlying loans or securitized debt securities at March 31, 2019.

based upon the Company's process of monitoring events of default on the underlying mortgage loans. In February 2019, the Company closed NLY 2019-FL2 a managed commercial real estate collateralized loan obligation ("CLO") securitization with a face value of \$857.3 million, which provides non-recourse financing to the Company collateralized by certain commercial real estate mortgage loans originated by the Company. As of March 31, 2019 a total of \$629.0 million of notes were held by third parties and the Company retained or purchased \$228.5 million of subordinated notes and preferred shares, which eliminate upon consolidation. The Company has determined that it is the primary beneficiary because it has the right to direct the servicer as well as remove the special servicer without cause and it holds variable interests that could be potentially significant to the CLO. The transfers of loans to the CLO did not qualify for sale accounting because the Company maintains effective control over the loans. The Company elected the fair value option for the financial liabilities issued by the CLO in order to simplify the accounting; however, the commercial loans continue to be carried at amortized cost as they were not eligible for the fair value option as it was not elected at origination of the loans. The Company incurred \$8.3 million of costs in connection with the CLO

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that were expensed as incurred during the three months ended March 31, 2019. The aggregate unpaid principal balance of loans in the CLO was \$739.1 million at March 31, 2019 and there were no loans 90 days or more past due or on nonaccrual status. There is no gain or loss attributable to instrument-specific credit risk of the debt securities at March 31, 2019 based upon the Company's process of monitoring events of default on the underlying mortgage loans. The contractual principal amount of the CLO debt held by third parties was \$628.9 million at March 31, 2019. The Company consolidates a securitization trust, which is included in "Residential Trusts" in the tables below, that issued residential mortgage-backed securities that are collateralized by residential mortgage loans that had been transferred to the trust by one of the Company's subsidiaries. The Company owns the subordinate securities, and a subsidiary of the Company continues to be the master servicer. As such, the Company is deemed to be the primary beneficiary of the residential mortgage trust and consolidates the entity. The Company has elected the fair value option for the financial assets and liabilities of this VIE, but has not elected to apply the practical expedient under ASU 2014-13 as prices of both the financial assets and financial liabilities of the residential mortgage trust are available from third-party pricing services. The contractual principal amount of the residential mortgage trust's debt held by third parties was \$82.8 million at March 31, 2019.

In March 2018, the Company closed OBX 2018-1, with a face value of \$327.5 million. In July 2018, the Company closed OBX 2018-EXP1 with a face value of 383.4 million. In October 2018, the Company closed OBX 2018-EXP2 with a face value of \$384.0 million. In January 2019, the Company closed OBX 2019-INV1, with a face value of \$394.0 million. The OBX 2018-1 Trust, the OBX 2018-EXP1 Trust, the OBX 2018-EXP2 Trust and the OBX 2019-INV1 Trust are referred to collectively as the "OBX Trusts". These securitizations represent financing transactions which provide non-recourse financing to the Company that are collateralized by residential mortgage loans purchased by the Company. As of March 31, 2019, a total of \$966.4 million of bonds were held by third parties and the Company retained \$363.0 million of mortgage-backed securities, which were eliminated in consolidation. The Company is deemed to be the primary beneficiary and consolidates the OBX Trusts because it has power to direct the activities that most significantly impact the OBX Trusts' performance and holds a variable interest that could be potentially significant to these VIEs. The Company has elected the fair value option for the financial assets and liabilities of these VIEs, but has not elected the practical expedient under ASU 2014-13 as prices of both the financial assets and financial liabilities of the residential mortgage trusts are available from third-party pricing services. The Company incurred \$1.7 million and \$1.5 million of costs in connection with these securitizations that were expensed as incurred during the three months ended March 31, 2019 and 2018, respectively. The contractual principal amount of the OBX Trusts' debt held by third parties was \$963.4 million at March 31, 2019.

Although the residential mortgage loans have been sold for bankruptcy and state law purposes, the transfers of the residential mortgage loans to the OBX Trusts did not qualify for sale accounting and are reflected as intercompany secured borrowings that are eliminated upon consolidation.

In June 2016, a consolidated subsidiary of the Company entered into a credit facility with a third party financial institution. As of March 31, 2019, the borrowing limit on this facility was \$400.0 million. The subsidiary was deemed to be a VIE and the Company was determined to be the primary beneficiary due to its role as collateral manager and because it holds a variable interest in the entity that could potentially be significant to the entity. The Company has pledged as collateral for this facility corporate loans with a carrying amount of \$555.4 million at March 31, 2019. The transfers did not qualify for sale accounting and are reflected as an intercompany secured borrowing that is eliminated upon consolidation. At March 31, 2019, the subsidiary had an intercompany receivable of \$350.1 million, which eliminates upon consolidation and an Other secured financing of \$350.1 million to the third party financial institution. In July 2017, a consolidated subsidiary of the Company entered into a \$150.0 million credit facility with a third party financial institution. The subsidiary was deemed to be a VIE and the Company was determined to be the primary beneficiary due to its role as servicer and because it holds a variable interest in the entity that could potentially be significant to the entity. The Company has transferred corporate loans to the subsidiary with a carrying amount of \$233.8 million at March 31, 2019, which continue to be reflected in the Company's Consolidated Statements of Financial Condition in Loans. At March 31, 2019, the subsidiary had an Other secured financing of \$148.5 million to the third party financial institution.

In January 2019, a consolidated subsidiary of the Company (the “Borrower”) entered into a \$200.0 million credit facility with a third party financial institution. As of March 31, 2019, the Borrower had not drawn on the credit facility. The Company also owns variable interests in an entity that invests in MSRs and has structured its operations, funding and capitalization into pools of assets and liabilities, each referred to as a “silo.” Owners of variable interests in a given silo are entitled to all of the returns and subjected to the risk of loss on the investments and operations of that silo and have no substantive recourse to the assets of any other silo. While the Company previously held 100% of the voting interests in this entity, in August 2017, the Company sold 100% of such interests, and entered into an agreement with the entity’s affiliated portfolio manager giving the Company the power over the silo in which it owns all of the beneficial interests. As a result, the Company is considered to be the primary beneficiary and consolidates this silo.

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The Company's exposure to the obligations of its VIEs is generally limited to the Company's investment in the VIEs of \$2.1 billion at March 31, 2019. Assets of the VIEs may only be used to settle obligations of the VIEs. Creditors of the VIEs have no recourse to the general credit of the Company. The Company is not contractually required to provide and has not provided any form of financial support to the VIEs. No gains or losses were recognized upon consolidation of existing VIEs. Interest income and expense are recognized using the effective interest method.

The statements of financial condition of the Company's VIEs, excluding the CLO, credit facility VIEs and OBX Trusts as the transfers of loans did not meet the criteria to be accounted for as sales, that are reflected in the Company's Consolidated Statements of Financial Condition at March 31, 2019 and December 31, 2018 are as follows:

March 31, 2019

|                                                          | Commercial<br>Trusts   | Residential<br>Trusts | MSR<br>Silo |
|----------------------------------------------------------|------------------------|-----------------------|-------------|
| Assets                                                   | (dollars in thousands) |                       |             |
| Cash and cash equivalents                                | \$—                    | \$—                   | \$40,714    |
| Loans                                                    | —                      | —                     | 101,344     |
| Assets transferred or pledged to securitization vehicles | 2,205,768              | 101,994               | —           |
| Mortgage servicing rights                                | —                      | —                     | 500,744     |
| Interest receivable                                      | 11,269                 | 540                   | —           |
| Derivative assets                                        | —                      | —                     | 15          |
| Other assets                                             | —                      | —                     | 27,290      |
| Total assets                                             | \$2,217,037            | \$ 102,534            | \$670,107   |
| Liabilities                                              |                        |                       |             |
| Debt issued by securitization vehicles (non-recourse)    | \$2,016,202            | \$ 82,220             | \$—         |
| Other secured financing                                  | —                      | —                     | 57,667      |
| Payable for unsettled trades                             | —                      | —                     | 15,924      |
| Interest payable                                         | 4,334                  | 196                   | —           |
| Other liabilities                                        | —                      | 179                   | 1,736       |
| Total liabilities                                        | \$2,020,536            | \$ 82,595             | \$75,327    |

December 31, 2018

|                                                          | Commercial<br>Trusts   | Residential<br>Trusts | MSR<br>Silo |
|----------------------------------------------------------|------------------------|-----------------------|-------------|
| Assets                                                   | (dollars in thousands) |                       |             |
| Cash and cash equivalents                                | \$—                    | \$—                   | \$30,444    |
| Loans                                                    | —                      | —                     | 97,464      |
| Assets transferred or pledged to securitization vehicles | 2,738,369              | 105,003               | —           |
| Mortgage servicing rights                                | —                      | —                     | 557,813     |
| Interest receivable                                      | 11,451                 | 539                   | —           |
| Other assets                                             | —                      | 4                     | 28,756      |
| Total assets                                             | \$2,749,820            | \$ 105,546            | \$714,477   |
| Liabilities                                              |                        |                       |             |
| Debt issued by securitization vehicles (non-recourse)    | \$2,509,264            | \$ 71,324             | \$—         |
| Other secured financing                                  | —                      | —                     | 68,385      |
| Interest payable                                         | 4,594                  | 238                   | —           |
| Other liabilities                                        | —                      | —                     | 1,975       |
| Total liabilities                                        | \$2,513,858            | \$ 71,562             | \$70,360    |

The geographic concentrations of credit risk exceeding 5% of the total loan unpaid principal balances related to the Company's VIEs, excluding the credit facility VIEs, OBX Trusts and CLO, at March 31, 2019 are as follows:

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## Securitized Loans at Fair Value Geographic Concentration of Credit Risk

| Commercial Trusts      |                   |              | Residential Trusts   |                   |              |
|------------------------|-------------------|--------------|----------------------|-------------------|--------------|
| Property Location      | Principal Balance | % of Balance | Property Location    | Principal Balance | % of Balance |
| (dollars in thousands) |                   |              |                      |                   |              |
| Texas                  | \$546,190         | 17.9 %       | California           | \$45,023          | 44.5 %       |
| California             | 461,478           | 15.1 %       | Texas                | 13,261            | 13.1 %       |
| Maryland               | 407,266           | 13.4 %       | Washington           | 7,466             | 7.4 %        |
| Virginia               | 349,921           | 11.5 %       | Illinois             | 7,197             | 7.1 %        |
| Pennsylvania           | 280,201           | 9.2 %        | Florida              | 5,165             | 5.1 %        |
| Other <sup>(1)</sup>   | 1,005,457         | 32.9 %       | Other <sup>(1)</sup> | 23,155            | 22.8 %       |
| Total                  | \$3,050,513       | 100.0 %      |                      | \$101,267         | 100.0 %      |

<sup>(1)</sup> No individual state greater than 5%.

## 9. REAL ESTATE

Real estate investments are carried at historical cost less accumulated depreciation. Historical cost includes all costs necessary to bring the asset to the condition and location necessary for its intended use, including financing during the construction period. Costs directly related to acquisitions deemed to be business combinations are expensed. Ordinary repairs and maintenance are expensed as incurred. Major replacements and improvements that extend the useful life of the asset are capitalized and depreciated over their useful life.

Real estate investments are depreciated using the straight-line method over the estimated useful lives of the assets, summarized as follows:

| Category                           | Term         |
|------------------------------------|--------------|
| Building and building improvements | 1 - 44 years |
| Furniture and fixtures             | 1 - 4 years  |

There was no real estate acquired in settlement of residential mortgage loans at March 31, 2019 or December 31, 2018 other than real estate held by securitization trusts that the Company was required to consolidate. The Company would be considered to have received physical possession of residential real estate property collateralizing a residential mortgage loan, so that the loan is derecognized and the real estate property would be recognized, if either (i) the Company obtains legal title to the residential real estate property upon completion of a foreclosure or (ii) the borrower conveys all interest in the residential real estate property to the Company to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement.

Real estate investments, including REO, that do not meet the criteria to be classified as held for sale are separately presented in the Consolidated Statements of Financial Condition as held for investment. Real estate held for sale is reported at the lower of its carrying value or its estimated fair value less estimated costs to sell. Once a property is determined to be held for sale, depreciation is no longer recorded.

The Company's real estate portfolio (REO and real estate held for investment) is reviewed on a quarterly basis, or more frequently as necessary, to assess whether there are any indicators that the value of its operating real estate may be impaired or that its carrying value may not be recoverable. A property's value is considered impaired if the Company's estimate of the aggregate future undiscounted cash flows to be generated by the property is less than the carrying value of the property. In conducting this review, the Company considers U.S. macroeconomic factors, including real estate sector conditions, together with asset specific and other factors. To the extent impairment has occurred and is considered to be other than temporary, the loss will be measured as the excess of the carrying amount of the property over the calculated fair value of the property.

The Company acquired real estate holdings in connection with the MTGE Acquisition during the year ended December 31, 2018; refer to the "Acquisition of MTGE Investment Corp." Note for additional information. There were no acquisitions of new real estate holdings during the three months ended March 31, 2019. The company sold one of

its wholly owned triple net leased properties during the three months ended March 31, 2019 for \$6.7 million and recognized a gain on sale of \$2.7 million.

The weighted average amortization period for intangible assets and liabilities at March 31, 2019 is 5.0 years. Above market leases and leasehold intangible assets are included in Intangible assets, net and below market leases are included in Other liabilities in the Consolidated Statements of Financial Condition.

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|                                                               | March 31, 2019         | December 31, 2018 |
|---------------------------------------------------------------|------------------------|-------------------|
| Real estate, net                                              | (dollars in thousands) |                   |
| Land                                                          | \$128,114              | \$128,742         |
| Buildings and improvements                                    | 578,067                | 581,320           |
| Furniture, fixtures and equipment                             | 12,333                 | 11,602            |
| Subtotal                                                      | 718,514                | 721,664           |
| Less: accumulated depreciation                                | (72,008)               | (67,026)          |
| Total real estate held for investment, at amortized cost, net | 646,506                | 654,638           |
| Equity in unconsolidated joint ventures                       | 87,733                 | 84,835            |
| Total real estate, net                                        | \$734,239              | \$739,473         |

Depreciation expense was \$5.8 million and \$3.7 million for the three months ended March 31, 2019 and 2018, respectively and is included in Other income (loss) in the Consolidated Statements of Comprehensive Income (Loss).

## Rental Income

The minimum rental amounts due under leases are generally either subject to scheduled fixed increases or adjustments. The leases generally also require that the tenants reimburse the Company for certain operating costs. Rental income is included in Other income (loss) in the Company's Consolidated Statements of Comprehensive Income (Loss).

Approximate future minimum rents to be received over the next five years and thereafter for non-cancelable operating leases in effect at March 31, 2019 for consolidated investments in real estate are as follows:

|                        |           |
|------------------------|-----------|
| March 31, 2019         |           |
| (dollars in thousands) |           |
| 2019 (remaining)       | \$38,061  |
| 2020                   | 45,616    |
| 2021                   | 44,314    |
| 2022                   | 40,459    |
| 2023                   | 37,635    |
| Later years            | 208,841   |
| Total                  | \$414,926 |

## 10. DERIVATIVE INSTRUMENTS

Derivative instruments include, but are not limited to, interest rate swaps, options to enter into interest rate swaps ("swaptions"), TBA derivatives, options on TBA securities ("MBS options"), U.S. Treasury and Eurodollar futures contracts and certain forward purchase commitments. The Company may also enter into other types of mortgage derivatives such as interest-only securities, credit derivatives referencing the commercial mortgage-backed securities index and synthetic total return swaps.

In connection with the Company's investment/market rate risk management strategy, the Company economically hedges a portion of its interest rate risk by entering into derivative financial instrument contracts, which include interest rate swaps, swaptions and futures contracts. The Company may also enter into TBA derivatives, MBS options and U.S. Treasury or Eurodollar futures contracts, certain forward purchase commitments and credit derivatives to economically hedge its exposure to market risks. The purpose of using derivatives is to manage overall portfolio risk with the potential to generate additional income for distribution to stockholders. These derivatives are subject to changes in market values resulting from changes in interest rates, volatility, Agency mortgage-backed security spreads to U.S. Treasuries and market liquidity. The use of derivatives also creates exposure to credit risk relating to potential losses that could be recognized if the counterparties to these instruments fail to perform their obligations under the stated contract. Additionally, the Company may have to pledge cash or assets as collateral for the derivative

transactions, the amount of which may vary based on the market value and terms of the derivative contract. In the case of market agreed coupon (“MAC”) interest rate swaps, the Company may make or receive a payment at the time of entering into such interest rate swaps, which represents fair value of these swaps, to compensate for the out of market nature of such interest rate swaps. Subsequent changes in fair value from inception of these interest rate swaps are reflected within Unrealized gains (losses) on interest rate swaps in the Consolidated Statements of Comprehensive Income (Loss). Similar to other interest rate swaps, the Company may have to pledge cash or assets as collateral for the MAC interest rate swap transactions. In the event of a default by the counterparty, the Company could have difficulty obtaining its pledged collateral as well as receiving payments in accordance with the terms of the derivative contracts.

Derivatives are accounted for in accordance with FASB ASC 815, Derivatives and Hedging, which requires recognition of all derivatives as either assets or liabilities at fair value in the Consolidated Statements of Financial Condition with changes in fair value recognized in the Consolidated Statements of Comprehensive Income (Loss). The changes in the estimated fair value are presented within Net gains (losses) on other derivatives with the exception of interest rate swaps which are separately presented. None of the Company’s derivative transactions have been designated as hedging instruments for accounting purposes.

The Company also maintains collateral in the form of cash on margin with counterparties to its interest rate swaps and other derivatives. In accordance with a clearing organization’s rulebook, the Company presents the fair value of centrally cleared interest rate swaps net of variation margin pledged under such transactions. At March 31, 2019, \$126.0 million of variation margin was reported as a reduction to interest rate swaps, at fair value.

**Interest Rate Swap Agreements** – Interest rate swap agreements are the primary instruments used to mitigate interest rate risk. In particular, the Company uses interest rate swap agreements to manage its exposure to changing interest rates on its repurchase agreements by economically hedging cash flows associated with these borrowings. Interest rate swap agreements may or may not be cleared through a derivatives clearing organization (“DCO”). Uncleared interest rate swaps are fair valued using internal pricing models and compared to the counterparty market values. Centrally cleared interest rate swaps, including MAC interest rate swaps, are generally fair valued using the DCO’s market values. If an interest rate swap is terminated, the realized gain (loss) on the interest rate swap would be equal to the difference between the cash received or paid and fair value.

**Swaptions** – Swaptions are purchased or sold to mitigate the potential impact of increases or decreases in interest rates. Interest rate swaptions provide 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. They are not centrally cleared. The premium paid or received for swaptions is reported as an asset or liability in the Consolidated Statements of Financial Condition. If a swaption expires unexercised, the realized gain (loss) on the swaption would be equal to the premium received or paid. If the Company sells or exercises a swaption, the realized gain or loss on the swaption would be equal to the difference between the cash received or the fair value of the underlying interest rate swap received and the premium paid.

The fair value of swaptions is estimated using internal pricing models and compared to the counterparty market value.

**TBA Dollar Rolls** – TBA dollar roll transactions are accounted for as a series of derivative transactions. The fair value of TBA derivatives is based on methods similar to those used to value Agency mortgage-backed securities.

**MBS Options** – MBS options are generally options on TBA contracts, which help manage mortgage market risks and volatility while providing the potential to enhance returns. MBS options are over-the-counter traded instruments and those written on current-coupon mortgage-backed securities are typically the most liquid. MBS options are measured at fair value using internal pricing models and compared to the counterparty market value at the valuation date.

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**Futures Contracts** – Futures contracts are derivatives that track the prices of specific assets or benchmark rates. Short sales of futures contracts help to mitigate the potential impact of changes in interest rates on the portfolio performance. The Company maintains margin accounts which are settled daily with Futures Commission Merchants (“FCMs”). The margin requirement varies based on the market value of the open positions and the equity retained in the account. Futures contracts are fair valued based on exchange pricing.

**Forward Purchase Commitments** – The Company may enter into forward purchase commitments with counterparties whereby the Company commits to purchasing residential mortgage loans at a particular price, provided the residential mortgage loans close with the counterparties. The counterparties are required to deliver the committed loans on a “best efforts” basis.

**Credit Derivatives** – The Company may enter into credit derivatives referencing the commercial mortgage-backed securities index, such as the CMBX index, and synthetic total return swaps. Refer to the section titled “Glossary of Terms” located in Part I, Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for additional information related to the CMBX index.

The table below summarizes fair value information about our derivative assets and liabilities at March 31, 2019 and December 31, 2018:

| Derivatives Instruments           | March 31, December 31,<br>2019      2018 |            |
|-----------------------------------|------------------------------------------|------------|
| Assets                            | (dollars in thousands)                   |            |
| Interest rate swaps               | \$26,020                                 | \$ 48,114  |
| Interest rate swaptions           | 8,250                                    | 7,216      |
| TBA derivatives                   | 106,960                                  | 141,688    |
| Futures contracts                 | 357                                      | —          |
| Purchase commitments              | 2,434                                    | 844        |
| Credit derivatives <sup>(1)</sup> | 4,157                                    | 2,641      |
|                                   | \$148,178                                | \$ 200,503 |
| Liabilities                       |                                          |            |
| Interest rate swaps               | \$509,485                                | \$ 420,365 |
| TBA derivatives                   | 5,212                                    | —          |
| Futures contracts                 | 260,354                                  | 462,309    |
| Purchase commitments              | 478                                      | 33         |
| Credit derivatives <sup>(1)</sup> | 451                                      | 7,043      |
|                                   | \$775,980                                | \$ 889,750 |

The notional amount of the credit derivatives in which the Company purchased protection was \$45.0 million and \$30.0 million at March 31, 2019 and December 31, 2018, respectively. The maximum potential amount of future payments is the notional amount of credit derivatives in which the Company sold protection of \$346.0 million and \$451.0 million at March 31, 2019 and December 31, 2018, respectively, plus any coupon shortfalls on the underlying tranche. The credit derivative tranches referencing the basket of bonds had a range of ratings between AAA and BBB-.

## ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

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The following table summarizes certain characteristics of the Company's interest rate swaps at March 31, 2019 and December 31, 2018:

March 31, 2019

| Maturity                 | Current<br>Notional <sup>(1)</sup> | Weighted<br>Average<br>Pay Rate | Weighted<br>Average<br>Receive<br>Rate | Weighted Average Years to Maturity |
|--------------------------|------------------------------------|---------------------------------|----------------------------------------|------------------------------------|
| (dollars in thousands)   |                                    |                                 |                                        |                                    |
| 0 - 3 years              | \$32,201,400                       | 1.93 %                          | 2.66 %                                 | 1.46                               |
| 3 - 6 years              | 13,567,000                         | 2.12 %                          | 2.63 %                                 | 4.22                               |
| 6 - 10 years             | 18,112,000                         | 2.52 %                          | 2.70 %                                 | 8.94                               |
| Greater than 10 years    | 3,578,000                          | 3.59 %                          | 2.58 %                                 | 17.81                              |
| Total / Weighted average | \$67,458,400                       | 2.20 %                          | 2.66 %                                 | 4.77                               |

December 31, 2018

| Maturity                 | Current<br>Notional <sup>(1)</sup> | Weighted<br>Average<br>Pay Rate | Weighted<br>Average<br>Receive<br>Rate | Weighted Average Years to Maturity |
|--------------------------|------------------------------------|---------------------------------|----------------------------------------|------------------------------------|
| (dollars in thousands)   |                                    |                                 |                                        |                                    |
| 0 - 3 years              | \$31,900,200                       | 1.84 %                          | 2.73 %                                 | 1.21                               |
| 3 - 6 years              | 16,603,200                         | 2.29 %                          | 2.70 %                                 | 4.30                               |
| 6 - 10 years             | 18,060,900                         | 2.57 %                          | 2.56 %                                 | 8.62                               |
| Greater than 10 years    | 3,901,400                          | 3.63 %                          | 2.59 %                                 | 17.33                              |
| Total / Weighted average | \$70,465,700                       | 2.17 %                          | 2.68 %                                 | 4.26                               |

<sup>(1)</sup> There were no forward starting swaps at March 31, 2019 and December 31, 2018.

The following table presents swaptions outstanding at March 31, 2019 and December 31, 2018.

March 31, 2019

| Current<br>Underlying<br>Notional | Weighted Average<br>Underlying Pay Rate | Weighted Average<br>Underlying Receive<br>Rate | Weighted Average<br>Underlying Years to<br>Maturity | Weighted Average<br>Months to<br>Expiration |
|-----------------------------------|-----------------------------------------|------------------------------------------------|-----------------------------------------------------|---------------------------------------------|
| (dollars in thousands)            |                                         |                                                |                                                     |                                             |
| Long \$2,800,000                  | 3.12%                                   | 3M LIBOR                                       | 10.33                                               | 6.70                                        |

December 31, 2018

| Current<br>Underlying<br>Notional | Weighted Average<br>Underlying Pay Rate | Weighted Average<br>Underlying Receive<br>Rate | Weighted Average<br>Underlying Years to<br>Maturity | Weighted Average<br>Months to<br>Expiration |
|-----------------------------------|-----------------------------------------|------------------------------------------------|-----------------------------------------------------|---------------------------------------------|
| (dollars in thousands)            |                                         |                                                |                                                     |                                             |
| Long \$4,075,000                  | 3.30%                                   | 3M LIBOR                                       | 10.08                                               | 3.06                                        |

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The following table summarizes certain characteristics of the Company's TBA derivatives at March 31, 2019 and December 31, 2018:

March 31, 2019

| Purchase and sale contracts for derivative TBAs | Notional     | Implied<br>Cost Basis | Implied<br>Market<br>Value | Net<br>Carrying<br>Value |
|-------------------------------------------------|--------------|-----------------------|----------------------------|--------------------------|
| (dollars in thousands)                          |              |                       |                            |                          |
| Purchase contracts                              | \$15,526,000 | \$15,779,271          | \$15,881,019               | 101,748                  |

December 31, 2018

| Purchase and sale contracts for derivative TBAs | Notional     | Implied<br>Cost Basis | Implied<br>Market<br>Value | Net<br>Carrying<br>Value |
|-------------------------------------------------|--------------|-----------------------|----------------------------|--------------------------|
| (dollars in thousands)                          |              |                       |                            |                          |
| Purchase contracts                              | \$13,803,000 | \$13,823,109          | \$13,964,797               | 141,688                  |

The following table summarizes certain characteristics of the Company's futures derivatives at March 31, 2019 and December 31, 2018:

March 31, 2019

|                                             | Notional -<br>Long<br>Positions<br>(dollars in<br>thousands) | Notional -<br>Short<br>Positions | Weighted Average<br>Years to Maturity |
|---------------------------------------------|--------------------------------------------------------------|----------------------------------|---------------------------------------|
| 2-year swap equivalent Eurodollar contracts | \$ —                                                         | \$(2,500,000)                    | 2.00                                  |
| U.S. Treasury futures - 2 year              | —                                                            | (2,872,400)                      | 1.93                                  |
| U.S. Treasury futures - 5 year              | —                                                            | (6,469,400)                      | 4.39                                  |
| U.S. Treasury futures - 10 year and greater | 109,000                                                      | (9,589,900)                      | 6.84                                  |
| Total                                       | \$ 109,000                                                   | \$(21,431,700)                   | 4.89                                  |

December 31, 2018

|                                             | Notional -<br>Long<br>Positions<br>(dollars in<br>thousands) | Notional -<br>Short<br>Positions | Weighted Average<br>Years to Maturity |
|---------------------------------------------|--------------------------------------------------------------|----------------------------------|---------------------------------------|
| U.S. Treasury futures - 2 year              | —                                                            | (1,166,000)                      | 1.97                                  |
| U.S. Treasury futures - 5 year              | —                                                            | (6,359,400)                      | 4.39                                  |
| U.S. Treasury futures - 10 year and greater | —                                                            | (11,152,600)                     | 7.10                                  |
| Total                                       | \$ —                                                         | \$(18,678,000)                   | 5.86                                  |

The Company presents derivative contracts on a gross basis on the Consolidated Statements of Financial Condition. Derivative contracts may contain legally enforceable provisions that allow for netting or setting off receivables and payables with each counterparty.



## ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

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The following tables present information about derivative assets and liabilities that are subject to such provisions and can potentially be offset on our Consolidated Statements of Financial Condition at March 31, 2019 and December 31, 2018, respectively.

March 31, 2019

|                                        |                  | Amounts Eligible for<br>Offset |                    |                |
|----------------------------------------|------------------|--------------------------------|--------------------|----------------|
|                                        | Gross<br>Amounts | Financial<br>Instruments       | Cash<br>Collateral | Net<br>Amounts |
| (dollars in thousands)                 |                  |                                |                    |                |
| <b>Assets</b>                          |                  |                                |                    |                |
| Interest rate swaps, at fair value     | \$26,020         | \$(14,498)                     | \$—                | \$11,522       |
| Interest rate swaptions, at fair value | 8,250            | —                              | —                  | 8,250          |
| TBA derivatives, at fair value         | 106,960          | (5,212)                        | —                  | 101,748        |
| Futures contracts, at fair value       | 357              | (33)                           | —                  | 324            |
| Purchase commitments                   | 2,434            | —                              | —                  | 2,434          |
| Credit derivatives                     | 4,157            | (451)                          | —                  | 3,706          |
| <b>Liabilities</b>                     |                  |                                |                    |                |
| Interest rate swaps, at fair value     | \$509,485        | \$(14,498)                     | \$(41,756)         | \$453,231      |
| TBA derivatives, at fair value         | 5,212            | (5,212)                        | —                  | —              |
| Futures contracts, at fair value       | 260,354          | (33)                           | (260,321)          | —              |
| Purchase commitments                   | 478              | —                              | —                  | 478            |
| Credit derivatives                     | 451              | (451)                          | —                  | —              |

December 31, 2018

|                                        |                  | Amounts Eligible for<br>Offset |                    |                |
|----------------------------------------|------------------|--------------------------------|--------------------|----------------|
|                                        | Gross<br>Amounts | Financial<br>Instruments       | Cash<br>Collateral | Net<br>Amounts |
| (dollars in thousands)                 |                  |                                |                    |                |
| <b>Assets</b>                          |                  |                                |                    |                |
| Interest rate swaps, at fair value     | \$48,114         | \$(29,308)                     | \$—                | \$18,806       |
| Interest rate swaptions, at fair value | 7,216            | —                              | —                  | 7,216          |
| TBA derivatives, at fair value         | 141,688          | —                              | —                  | 141,688        |
| Purchase commitments                   | 844              | —                              | —                  | 844            |
| Credit derivatives                     | 2,641            | (2,641)                        | —                  | —              |
| <b>Liabilities</b>                     |                  |                                |                    |                |
| Interest rate swaps, at fair value     | \$420,365        | \$(29,308)                     | \$(11,856)         | \$379,201      |
| Futures contracts, at fair value       | 462,309          | —                              | (462,309)          | —              |
| Purchase commitments                   | 33               | —                              | —                  | 33             |
| Credit derivatives                     | 7,043            | (2,641)                        | (4,402)            | —              |

The effect of interest rate swaps on the Consolidated Statements of Comprehensive Income (Loss) is as follows:

Location on Consolidated Statements of Comprehensive Income  
(Loss)

| Net<br>Interest<br>Component<br>of Interest<br>Rate | Realized<br>Gains<br>(Losses) on<br>Termination<br>of Interest | Unrealized<br>Gains<br>(Losses) on<br>Interest<br>Rate |
|-----------------------------------------------------|----------------------------------------------------------------|--------------------------------------------------------|
|-----------------------------------------------------|----------------------------------------------------------------|--------------------------------------------------------|

|                            | Swaps                  | Rate Swaps    | Swaps        |
|----------------------------|------------------------|---------------|--------------|
| For the three months ended | (dollars in thousands) |               |              |
| March 31, 2019             | \$ 134,035             | \$ (588,256 ) | \$ (390,556) |
| March 31, 2018             | \$(48,160 )            | \$ 834        | \$ 977,285   |

## ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

## Item 1. Financial Statements

The effect of other derivative contracts on the Company's Consolidated Statements of Comprehensive Income (Loss) is as follows:

Three Months Ended March 31, 2019

| Derivative Instruments      | Realized<br>Gain<br>(Loss) | Unrealized<br>Gain<br>(Loss) | Amount of<br>Gain/(Loss)<br>Recognized<br>in Net Gains<br>(Losses) on<br>Other<br>Derivatives |
|-----------------------------|----------------------------|------------------------------|-----------------------------------------------------------------------------------------------|
| (dollars in thousands)      |                            |                              |                                                                                               |
| Net TBA derivatives         | \$213,725                  | \$(39,940 )                  | \$173,785                                                                                     |
| Net interest rate swaptions | (29,992 )                  | 19,684                       | (10,308 )                                                                                     |
| Futures                     | (491,741 )                 | 202,312                      | (289,429 )                                                                                    |
| Purchase commitments        | —                          | 1,145                        | 1,145                                                                                         |
| Credit derivatives          | 2,302                      | 7,346                        | 9,648                                                                                         |
| Total                       |                            |                              | \$(115,159 )                                                                                  |

Three Months Ended March 31, 2018

| Derivative Instruments      | Realized<br>Gain<br>(Loss) | Unrealized<br>Gain<br>(Loss) | Amount of<br>Gain/(Loss)<br>Recognized<br>in Net Gains<br>(Losses) on<br>Other<br>Derivatives |
|-----------------------------|----------------------------|------------------------------|-----------------------------------------------------------------------------------------------|
| (dollars in thousands)      |                            |                              |                                                                                               |
| Net TBA derivatives         | \$(277,901)                | \$17,917                     | \$(259,984 )                                                                                  |
| Net interest rate swaptions | (21,434 )                  | 67,221                       | 45,787                                                                                        |
| Futures                     | 495,013                    | (328,512 )                   | 166,501                                                                                       |
| Purchase commitments        | —                          | 366                          | 366                                                                                           |
| Credit derivatives          | 1,513                      | (1,328 )                     | 185                                                                                           |
| Total                       |                            |                              | \$(47,145 )                                                                                   |

Certain of the Company's derivative contracts are subject to International Swaps and Derivatives Association Master Agreements or other similar agreements which may contain provisions that grant counterparties certain rights with respect to the applicable agreement upon the occurrence of certain events such as (i) a decline in stockholders' equity in excess of specified thresholds or dollar amounts over set periods of time, (ii) the Company's failure to maintain its REIT status, (iii) the Company's failure to comply with limits on the amount of leverage, and (iv) the Company's stock being delisted from the New York Stock Exchange.

Upon the occurrence of any one of items (i) through (iv), or another default under the agreement, the counterparty to the applicable agreement has a right to terminate the agreement in accordance with its provisions. The aggregate fair value of all derivative instruments with the aforementioned features are in a net asset position at March 31, 2019.

## 11. FAIR VALUE MEASUREMENTS

The Company follows fair value guidance in accordance with GAAP to account for its financial instruments that are accounted for at fair value. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

GAAP requires classification of financial instruments into a three-level hierarchy based on the priority of the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest priority input that is significant to the fair value measurement of the instrument. Financial assets and liabilities recorded at fair value on the Consolidated Statements of Financial Condition or disclosed in the related notes are categorized based on the inputs to the valuation techniques as follows:

Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets and liabilities in active markets.

Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – inputs to the valuation methodology are unobservable and significant to overall fair value.

The Company designates its securities as trading, available-for-sale or held-to-maturity depending upon the type of security and the Company's intent and ability to hold such security to maturity. Securities classified as available-for-sale and trading are reported at fair value on a recurring basis.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

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The following is a description of the valuation methodologies used for instruments carried at fair value. These methodologies are applied to assets and liabilities across the three-level fair value hierarchy, with the observability of inputs determining the appropriate level.

Futures contracts are valued using quoted prices for identical instruments in active markets and are classified as Level 1.

Residential Securities, interest rate swaps, swaptions and other derivatives are valued using quoted prices or internally estimated prices for similar assets using internal models. The Company incorporates common market pricing methods, including a spread measurement to the Treasury curve as well as underlying characteristics of the particular security including coupon, prepayment speeds, periodic and life caps, rate reset period and expected life of the security in its estimates of fair value. Fair value estimates for residential mortgage loans are generated by a discounted cash flow model and are primarily based on observable market-based inputs including discount rates, prepayment speeds, delinquency levels, and credit losses. Management reviews and indirectly corroborates its estimates of the fair value derived using internal models by comparing its results to independent prices provided by dealers in the securities and/or third party pricing services. Certain liquid asset classes, such as Agency fixed-rate pass-throughs, may be priced using independent sources such as quoted prices for TBA securities.

Residential Securities, residential mortgage loans, interest rate swap and swaption markets and MBS options are considered to be active markets such that participants transact with sufficient frequency and volume to provide transparent pricing information on an ongoing basis. The liquidity of the Residential Securities, residential mortgage loans, interest rate swaps, swaptions, TBA derivatives and MBS options markets and the similarity of the Company's securities to those actively traded enable the Company to observe quoted prices in the market and utilize those prices as a basis for formulating fair value measurements. Consequently, the Company has classified Residential Securities, residential mortgage loans, interest rate swaps, swaptions, TBA derivatives and MBS options as Level 2 inputs in the fair value hierarchy.

The fair value of commercial mortgage-backed securities classified as available-for-sale is determined based upon quoted prices of similar assets in recent market transactions and requires the application of judgment due to differences in the underlying collateral. Consequently, commercial real estate debt investments carried at fair value are classified as Level 2.

For the fair value of debt issued by securitization vehicles, refer to the Note titled "Variable Interest Entities" for additional information.

The Company classifies its investments in MSRs as Level 3 in the fair value measurements hierarchy. Fair value estimates for these investments are obtained from models, which use significant unobservable inputs in their valuations. These valuations primarily utilize discounted cash flow models that incorporate unobservable market data inputs including prepayment rates, delinquency levels, costs to service and discount rates. Model valuations are then compared to valuations obtained from third-party pricing providers. Management reviews the valuations received from third-party pricing providers and uses them as a point of comparison to modeled values. The valuation of MSRs requires significant judgment by management and the third-party pricing providers. Assumptions used for which there is a lack of observable inputs may significantly impact the resulting fair value and therefore the Company's financial statements.

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The following tables present the estimated fair values of financial instruments measured at fair value on a recurring basis. There were no transfers between levels of the fair value hierarchy during the periods presented.

March 31, 2019

|                                                          | Level 1                | Level 2       | Level 3   | Total         |
|----------------------------------------------------------|------------------------|---------------|-----------|---------------|
|                                                          | (dollars in thousands) |               |           |               |
| Assets                                                   |                        |               |           |               |
| Securities                                               |                        |               |           |               |
| Agency mortgage-backed securities                        | \$—                    | \$103,093,526 | \$—       | \$103,093,526 |
| Credit risk transfer securities                          | —                      | 607,945       | —         | 607,945       |
| Non-Agency mortgage-backed securities                    | —                      | 1,116,569     | —         | 1,116,569     |
| Commercial mortgage-backed securities                    | —                      | 175,231       | —         | 175,231       |
| Loans                                                    |                        |               |           |               |
| Residential mortgage loans                               | —                      | 1,311,720     | —         | 1,311,720     |
| Mortgage servicing rights                                | —                      | —             | 500,745   | 500,745       |
| Assets transferred or pledged to securitization vehicles | —                      | 4,365,300     | —         | 4,365,300     |
| Derivative assets                                        |                        |               |           |               |
| Interest rate swaps                                      | —                      | 26,020        | —         | 26,020        |
| Other derivatives                                        | 357                    | 121,801       | —         | 122,158       |
| Total assets                                             | \$357                  | \$110,818,112 | \$500,745 | \$111,319,214 |
| Liabilities                                              |                        |               |           |               |
| Debt issued by securitization vehicles                   | —                      | 3,693,766     | —         | 3,693,766     |
| Derivative liabilities                                   |                        |               |           |               |
| Interest rate swaps                                      | —                      | 509,485       | —         | 509,485       |
| Other derivatives                                        | 260,354                | 6,141         | —         | 266,495       |
| Total liabilities                                        | \$260,354              | \$4,209,392   | \$—       | \$4,469,746   |

December 31, 2018

|                                                          | Level 1                | Level 2      | Level 3   | Total        |
|----------------------------------------------------------|------------------------|--------------|-----------|--------------|
|                                                          | (dollars in thousands) |              |           |              |
| Assets                                                   |                        |              |           |              |
| Securities                                               |                        |              |           |              |
| Agency mortgage-backed securities                        | \$—                    | \$90,752,995 | \$—       | \$90,752,995 |
| Credit risk transfer securities                          | —                      | 552,097      | —         | 552,097      |
| Non-Agency mortgage-backed securities                    | —                      | 1,161,938    | —         | 1,161,938    |
| Commercial mortgage-backed securities                    | —                      | 156,758      | —         | 156,758      |
| Loans                                                    |                        |              |           |              |
| Residential mortgage loans                               | —                      | 1,359,806    | —         | 1,359,806    |
| Mortgage servicing rights                                | —                      | —            | 557,813   | 557,813      |
| Assets transferred or pledged to securitization vehicles | —                      | 3,833,200    | —         | 3,833,200    |
| Derivative assets                                        |                        |              |           |              |
| Interest rate swaps                                      | —                      | 48,114       | —         | 48,114       |
| Other derivatives                                        | —                      | 152,389      | —         | 152,389      |
| Total assets                                             | \$—                    | \$98,017,297 | \$557,813 | \$98,575,110 |
| Liabilities                                              |                        |              |           |              |
| Debt issued by securitization vehicles                   | \$—                    | \$3,347,062  | \$—       | \$3,347,062  |
| Derivative liabilities                                   |                        |              |           |              |
| Interest rate swaps                                      | —                      | 420,365      | —         | 420,365      |
| Other derivatives                                        | 462,309                | 7,076        | —         | 469,385      |
| Total liabilities                                        | \$462,309              | \$3,774,503  | \$—       | \$4,236,812  |

## Quantitative Information about Level 3 Fair Value Measurements

The Company considers unobservable inputs to be those for which market data is not available and that are developed using the best information available to us about the assumptions that market participants would use when pricing the asset. Relevant inputs vary depending on the nature of the instrument being measured at fair value. The sensitivities of significant unobservable inputs

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along with interrelationships between and among the significant unobservable inputs and their impact on the fair value measurements are described below. The effect of a change in a particular assumption in the sensitivity analysis below is considered independently from changes in any other assumptions. In practice, simultaneous changes in assumptions may not always have a linear effect on the inputs discussed below. Interrelationships may also exist between observable and unobservable inputs. Such relationships have not been included in the discussion below. For each of the individual relationships described below, the inverse relationship would also generally apply. For MSRs, in general, increases in the discount, prepayment or delinquency rates or in annual servicing costs in isolation would result in a lower fair value measurement. A decline in interest rates could lead to higher-than-expected prepayments of mortgages underlying the Company's investments in MSRs, which in turn could result in a decline in the estimated fair value of MSRs. Refer to the Note titled "Mortgage Servicing Rights" for additional information.

The table below presents information about the significant unobservable inputs used for recurring fair value measurements for Level 3 MSRs. The table does not give effect to the Company's risk management practices that might offset risks inherent in these Level 3 investments.

| March 31, 2019       |                    |                              | December 31, 2018  |                              |  |
|----------------------|--------------------|------------------------------|--------------------|------------------------------|--|
| Valuation Technique  | Unobservable Input | Range<br>(Weighted Average ) | Unobservable Input | Range<br>(Weighted Average ) |  |
| Discounted cash flow | Discount rate      | 9.0% - 12.0% (9.4%)          | Discount rate      | 9.0% - 12.0% (9.4%)          |  |
|                      | Prepayment rate    | 5.3% - 23.6% (11.5%)         | Prepayment rate    | 4.7% - 13.9% (8.0%)          |  |
|                      | Delinquency rate   | 0.0% - 5.0% (2.3%)           | Delinquency rate   | 0.0% - 5.0% (2.3%)           |  |
|                      | Cost to service    | \$82 - \$139 (\$110)         | Cost to service    | \$82 - \$138 (\$110)         |  |

(1) Represents rates, estimates and assumptions that the Company believes would be used by market participants when valuing these assets.

The following table summarizes the estimated fair values for financial assets and liabilities that are not carried at fair value at March 31, 2019 and December 31, 2018.

|                                                                       |                                     | March 31, 2019    |               | December 31, 2018 |               |
|-----------------------------------------------------------------------|-------------------------------------|-------------------|---------------|-------------------|---------------|
|                                                                       | Level in<br>Fair Value<br>Hierarchy | Carrying<br>Value | Fair<br>Value | Carrying<br>Value | Fair<br>Value |
| (dollars in thousands)                                                |                                     |                   |               |                   |               |
| Financial assets                                                      |                                     |                   |               |                   |               |
| Loans                                                                 |                                     |                   |               |                   |               |
| Commercial real estate debt and preferred equity, held for investment | 3                                   | \$722,962         | \$726,687     | \$1,296,803       | \$1,303,487   |
| Commercial loans held for sale, net                                   | 3                                   | 42,035            | 42,035        | 42,184            | 42,184        |
| Corporate debt                                                        | 2                                   | 1,758,082         | 1,742,320     | 1,887,182         | 1,863,524     |
| Corporate debt held for sale, net                                     | 2                                   | 44,525            | 44,525        | —                 | —             |
| Financial liabilities                                                 |                                     |                   |               |                   |               |
| Repurchase agreements                                                 | 1,2                                 | \$88,554,170      | \$88,554,170  | \$81,115,874      | \$81,115,874  |
| Other secured financing                                               | 1,2                                 | 4,144,623         | 4,144,491     | 4,183,311         | 4,183,805     |
| Mortgage payable                                                      | 3                                   | 510,386           | 519,748       | 511,056           | 507,770       |

## 12. GOODWILL AND INTANGIBLE ASSETS

## Goodwill

The Company's acquisitions are accounted for using the acquisition method if the acquisition is deemed to be a business. Under the acquisition method, net assets and results of operations of acquired companies are included in the consolidated financial statements from the date of acquisition. The purchase prices are allocated to the assets acquired,

including identifiable intangible assets, and the liabilities assumed based on their estimated fair values at the date of acquisition. The excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill. Conversely, any excess of the fair value of the net assets acquired over the purchase price is recognized as a bargain purchase gain.

The Company tests goodwill for impairment on an annual basis or more frequently when events or circumstances may make it more likely than not that an impairment has occurred. If a qualitative analysis indicates that there may be an impairment, a quantitative analysis is performed. The quantitative impairment test for goodwill utilizes a two-step approach, whereby the Company compares the carrying value of each identified reporting unit to its fair value. If the carrying value of the reporting unit is greater than its fair value, the second step is performed, where the implied fair value of goodwill is compared to its carrying

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value. The Company recognizes an impairment charge for the amount by which the carrying amount of goodwill exceeds its fair value.

At March 31, 2019 and December 31, 2018, goodwill totaled \$71.8 million.

### Intangible assets, net

Finite life intangible assets are amortized over their expected useful lives. The following table presents the activity of finite lived intangible assets for the three months ended March 31, 2019.

### Intangible Assets, net

(dollars in thousands)

Balance at December 31, 2018 \$29,039

Intangible assets divested (151 )

Less: amortization expense (2,152 )

Balance at March 31, 2019 \$26,736

## 13. SECURED FINANCING

Reverse Repurchase and Repurchase Agreements – The Company finances a significant portion of its assets with repurchase agreements. At the inception of each transaction, the Company assessed each of the specified criteria in ASC 860, Transfers and Servicing, and has determined that each of the financing agreements meet the specified criteria in this guidance.

The Company enters into reverse repurchase agreements to earn a yield on excess cash balances. The Company obtains collateral in connection with the reverse repurchase agreements in order to mitigate credit risk exposure to its counterparties.

Reverse repurchase agreements and repurchase agreements with the same counterparty and the same maturity are presented net in the Consolidated Statements of Financial Condition when the terms of the agreements meet the criteria to permit netting. The Company reports cash flows on repurchase agreements as financing activities and cash flows on reverse repurchase agreements as investing activities in the Consolidated Statements of Cash Flows.

The Company had outstanding \$88.6 billion and \$81.1 billion of repurchase agreements with weighted average borrowing rates of 2.48% and 2.36%, after giving effect to the Company's interest rate swaps used to hedge cost of funds, and weighted average remaining maturities of 72 days and 77 days at March 31, 2019 and December 31, 2018, respectively. The Company has select arrangements with counterparties to enter into repurchase agreements for \$1.1 billion with \$900.0 million available to be drawn at March 31, 2019.

At March 31, 2019 and December 31, 2018, the repurchase agreements had the following remaining maturities, collateral types and weighted average rates:

March 31, 2019

|                              | Agency<br>Mortgage-Backed<br>Securities<br>(dollars in thousands) |           | Non-Agency<br>Mortgage-Backed<br>Securities | Commercial<br>Loans | Commercial<br>Mortgage-Backed<br>Securities | Total<br>Repurchase<br>Agreements | Weighted<br>Average<br>Rate |   |
|------------------------------|-------------------------------------------------------------------|-----------|---------------------------------------------|---------------------|---------------------------------------------|-----------------------------------|-----------------------------|---|
| 1 day                        | \$19,025,744                                                      | \$—       | \$ —                                        | \$ —                | \$ 57,538                                   | \$19,083,282                      | 3.41                        | % |
| 2 to 29 days                 | 18,313,263                                                        | 283,222   | 438,446                                     | —                   | 72,910                                      | 19,107,841                        | 2.64                        | % |
| 30 to 59 days                | 5,190,135                                                         | —         | —                                           | —                   | 30,501                                      | 5,220,636                         | 2.68                        | % |
| 60 to 89 days                | 20,414,594                                                        | 57,204    | 245,553                                     | —                   | 45,049                                      | 20,762,400                        | 2.69                        | % |
| 90 to 119 days               | 1,867,443                                                         | —         | —                                           | —                   | —                                           | 1,867,443                         | 2.70                        | % |
| Over 120 days <sup>(1)</sup> | 22,128,141                                                        | —         | 113,088                                     | 200,040             | 71,299                                      | 22,512,568                        | 2.77                        | % |
| Total                        | \$86,939,320                                                      | \$340,426 | \$ 797,087                                  | \$ 200,040          | \$ 277,297                                  | \$88,554,170                      | 2.86                        | % |



## ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

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December 31, 2018

|                                 | Agency<br>Mortgage-Backed<br>Securities<br>(dollars in thousands) |           | Non-Agency<br>Mortgage-Backed<br>Securities | Commercial<br>Loans | Commercial<br>Mortgage-Backed<br>Securities | U.S.<br>Treasury<br>Securities | Total<br>Repurchase<br>Agreements | Weighted<br>Average<br>Rate |   |
|---------------------------------|-------------------------------------------------------------------|-----------|---------------------------------------------|---------------------|---------------------------------------------|--------------------------------|-----------------------------------|-----------------------------|---|
| 1 day                           | \$—                                                               | \$—       | \$ —                                        | \$—                 | \$ —                                        | \$—                            | \$—                               | —                           | % |
| 2 to 29 days                    | 30,661,001                                                        | 284,906   | 353,429                                     | —                   | 72,840                                      | 640,465                        | 32,012,641                        | 3.50                        | % |
| 30 to 59 days                   | 8,164,165                                                         | —         | —                                           | —                   | —                                           | —                              | 8,164,165                         | 2.33                        | % |
| 60 to 89 days                   | 18,326,399                                                        | 88,630    | 251,441                                     | —                   | 23,302                                      | —                              | 18,689,772                        | 2.62                        | % |
| 90 to 119<br>days               | 10,067,183                                                        | —         | —                                           | —                   | —                                           | —                              | 10,067,183                        | 2.54                        | % |
| Over 120<br>days <sup>(1)</sup> | 11,263,625                                                        | —         | 116,434                                     | 693,939             | 108,115                                     | —                              | 12,182,113                        | 2.92                        | % |
| Total                           | \$78,482,373                                                      | \$373,536 | \$ 721,304                                  | \$ 693,939          | \$ 204,257                                  | \$ 640,465                     | \$81,115,874                      | 2.97                        | % |

<sup>(1)</sup> Less than 1% and approximately 1% of the total repurchase agreements had a remaining maturity over 1 year at March 31, 2019 and December 31, 2018, respectively.

The following table summarizes the gross amounts of reverse repurchase agreements and repurchase agreements, amounts offset in accordance with netting arrangements and net amounts of repurchase agreements and reverse repurchase agreements as presented in the Consolidated Statements of Financial Condition at March 31, 2019 and December 31, 2018. Refer to the “Derivative Instruments” Note for information related to the effect of netting arrangements on the Company’s derivative instruments.

|                             | March 31, 2019                      |                          | December 31, 2018                   |                          |
|-----------------------------|-------------------------------------|--------------------------|-------------------------------------|--------------------------|
|                             | Reverse<br>Repurchase<br>Agreements | Repurchase<br>Agreements | Reverse<br>Repurchase<br>Agreements | Repurchase<br>Agreements |
|                             | (dollars in thousands)              |                          |                                     |                          |
| Gross amounts               | \$2,123,449                         | \$90,154,170             | \$650,040                           | \$81,115,874             |
| Amounts offset (1,600,000 ) | (1,600,000 )                        | —                        | —                                   | —                        |
| Netted amounts              | \$523,449                           | \$88,554,170             | \$650,040                           | \$81,115,874             |

The fair value of collateral received in connection with reverse repurchase agreements was \$538.1 million, which was not sold or repledged by the Company, and \$650.0 million, which the Company fully repledged, as of March 31, 2019 and December 31, 2018, respectively.

**Other Secured Financing** - The Company also finances a portion of its financial assets with advances from the Federal Home Loan Bank of Des Moines (“FHLB Des Moines”). Borrowings from FHLB Des Moines are reported in Other secured financing in the Company’s Consolidated Statements of Financial Condition. At March 31, 2019, \$90.0 million of advances from the FHLB Des Moines matures in less than one year and \$3.5 billion matures between one to three years. At December 31, 2018, \$3.6 billion of advances from the FHLB Des Moines matured between one to three years. The weighted average rate of the advances from the FHLB Des Moines was 2.99% and 2.78% at March 31, 2019 and December 31, 2018, respectively. The Company held \$147.9 million of capital stock in the FHLB Des Moines at March 31, 2019 and December 31, 2018, which is reported at cost and included in Other assets on the Company’s Consolidated Statements of Financial Condition.

Investments pledged as collateral under secured financing arrangements and interest rate swaps, excluding residential and senior securitized commercial mortgage loans of consolidated VIEs, had an estimated fair value and accrued interest of \$98.1 billion and \$322.7 million, respectively, at March 31, 2019 and \$90.2 billion and \$303.1 million, respectively, at December 31, 2018.



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Mortgage loans payable at March 31, 2019 and December 31, 2018, were as follows:

March 31, 2019

| Property                  | Mortgage<br>Carrying<br>Value | Mortgage<br>Principal | Interest Rate | Fixed/Floating<br>Rate | Maturity Date         | Priority    |
|---------------------------|-------------------------------|-----------------------|---------------|------------------------|-----------------------|-------------|
| (dollars in thousands)    |                               |                       |               |                        |                       |             |
| Joint Ventures (fixed)    | \$ 316,380                    | \$ 318,664            | 4.03% - 4.96% | Fixed                  | 2024 - 2029           | First liens |
| Joint Ventures (floating) | 16,125                        | 16,125                | L+2.75%       | Floating               | 3/14/2020             | First liens |
| Virginia                  | 95,364                        | 97,187                | 2.34% - 4.53% | Fixed                  | 2019 - 2053           | First liens |
| Texas                     | 32,060                        | 33,597                | 3.28%         | Fixed                  | 1/1/2048 and 1/1/2053 | First liens |
| Utah (floating)           | 9,744                         | 9,706                 | L+3.50%       | Floating               | 1/31/2020             | First liens |
| Utah (fixed)              | 7,156                         | 7,175                 | 3.69%         | Fixed                  | 6/1/2053              | First liens |
| Minnesota                 | 13,390                        | 13,425                | 3.69%         | Fixed                  | 6/1/2053              | First liens |
| Tennessee                 | 12,303                        | 12,350                | 4.01%         | Fixed                  | 9/6/2019              | First liens |
| Wisconsin                 | 7,864                         | 7,884                 | 3.69%         | Fixed                  | 6/1/2053              | First liens |
| Total                     | \$ 510,386                    | \$ 516,113            |               |                        |                       |             |

December 31, 2018

| Property                  | Mortgage<br>Carrying<br>Value | Mortgage<br>Principal | Interest Rate | Fixed/Floating<br>Rate | Maturity Date | Priority    |
|---------------------------|-------------------------------|-----------------------|---------------|------------------------|---------------|-------------|
| (dollars in thousands)    |                               |                       |               |                        |               |             |
| Joint Ventures (fixed)    | \$ 316,275                    | \$ 318,664            | 4.03% - 4.96% | Fixed                  | 2024 - 2029   | First liens |
| Joint Ventures (floating) | 16,125                        | 16,125                | L+2.75%       | Floating               | 3/14/2020     | First liens |
| Virginia                  | 95,827                        | 97,667                | 2.75% - 4.96% | Fixed                  | 2019 - 2053   | First liens |
| Texas                     | 32,189                        | 33,735                | 3.28%         | Fixed                  | 1/1/2053      | First liens |
| Utah (floating)           | 9,703                         | 9,706                 | L+3.50%       | Floating               | 1/31/2019     | First liens |
| Utah (fixed)              | 7,279                         | 7,201                 | 3.69%         | Fixed                  | 6/1/2053      | First liens |
| Minnesota                 | 13,438                        | 13,473                | 3.69%         | Fixed                  | 6/1/2053      | First liens |
| Tennessee                 | 12,328                        | 12,350                | 4.01%         | Fixed                  | 9/6/2019      | First liens |
| Wisconsin                 | 7,892                         | 7,913                 | 3.69%         | Fixed                  | 6/1/2053      | First liens |
| Total                     | \$ 511,056                    | \$ 516,834            |               |                        |               |             |

The following table details future mortgage loan principal payments at March 31, 2019:

## Mortgage Loan Principal

## Payments

(dollars in thousands)

2019 (remaining) \$ 25,680

2020 29,113

2021 3,490

2022 3,708

2023 3,843

Later years 450,279

Total \$ 516,113

## ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

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## 14. CAPITAL STOCK

## (A) Common Stock

The following table provides a summary of the Company's common shares authorized, and issued and outstanding at March 31, 2019 and December 31, 2018.

| Shares authorized          |                   | Shares issued and outstanding |                   | Par Value |
|----------------------------|-------------------|-------------------------------|-------------------|-----------|
| March 31, 2019             | December 31, 2018 | March 31, 2019                | December 31, 2018 |           |
| Common stock 1,924,050,000 | 1,924,050,000     | 1,448,103,248                 | 1,313,763,450     | \$0.01    |

During the three months ended March 31, 2019, the Company closed the public offering of an original issuance of 75.0 million shares of common stock for proceeds of \$730.5 million before deducting offering expenses. In connection with the offering, the Company granted the underwriters a thirty-day option to purchase up to an additional 11.3 million shares of common stock, which the underwriters exercised in full resulting in an additional \$109.6 million in proceeds before deducting offering expenses.

No options were exercised during the three months ended March 31, 2019 and 2018.

The following table provides a summary of activity related to the Company's Direct Purchase and Dividend Reinvestment Program.

|                                                                         | Three Months Ended March 31, 2019 | March 31, 2018 |
|-------------------------------------------------------------------------|-----------------------------------|----------------|
|                                                                         | (dollars in thousands)            |                |
| Shares issued through direct purchase and dividend reinvestment program | 87,000                            | 70,000         |
| Amount raised from direct purchase and dividend reinvestment program    | \$892                             | \$746          |

In January 2018, the Company entered into separate Distribution Agency Agreements (collectively, the "Sales Agreements") with each of Wells Fargo Securities, LLC, Merrill Lynch, Pierce, Fenner & Smith, Incorporated, Barclays Capital Inc., Citigroup Global Markets Inc., Credit Suisse Securities (USA) LLC, Goldman Sachs & Co. LLC, J.P. Morgan Securities LLC, Keefe, Bruyette & Woods, Inc., RBC Capital Markets, LLC and UBS Securities LLC (the "Sales Agents"). The Company may offer and sell shares of its common stock, having an aggregate offering price of up to \$1.5 billion from time to time through any of the Sales Agents. During the three months ended March 31, 2019, the Company issued 48.0 million shares under the at-the-market sales program for proceeds of \$489.0 million, net of commissions and fees.

## (B) Preferred Stock

The following is a summary of the Company's cumulative redeemable preferred stock outstanding at March 31, 2019 and December 31, 2018. In the event of a liquidation or dissolution of the Company, the Company's then outstanding preferred stock takes precedence over the Company's common stock with respect to payment of dividends and the distribution of assets.

| Shares Authorized |                   | Shares Issued And Outstanding |                   | Carrying Value |                   | Contractual Rate | Earliest Redemption Date <sup>(1)</sup> | Date At Which Dividend Rate | Floating Annual Rate |
|-------------------|-------------------|-------------------------------|-------------------|----------------|-------------------|------------------|-----------------------------------------|-----------------------------|----------------------|
| March 31, 2019    | December 31, 2018 | March 31, 2019                | December 31, 2018 | March 31, 2019 | December 31, 2018 |                  |                                         |                             |                      |

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|                        |                        |            |            |            |              |              |        |           | Becomes<br>Floating |                            |
|------------------------|------------------------|------------|------------|------------|--------------|--------------|--------|-----------|---------------------|----------------------------|
| Fixed-rate             | (dollars in thousands) |            |            |            |              |              |        |           |                     |                            |
| Series C               | 7,000,000              | 7,000,000  | 7,000,000  | 7,000,000  | \$ 169,466   | \$ 169,466   | 7.625% | 5/16/2017 | NA                  | NA                         |
| Series D               | 18,400,000             | 18,400,000 | 18,400,000 | 18,400,000 | 445,457      | 445,457      | 7.50%  | 9/13/2017 | NA                  | NA                         |
| Series H               | 2,200,000              | 2,200,000  | 2,200,000  | 2,200,000  | 55,000       | 55,000       | 8.125% | 5/22/2019 | NA                  | NA                         |
| Fixed-to-floating rate |                        |            |            |            |              |              |        |           |                     |                            |
| Series F               | 28,800,000             | 28,800,000 | 28,800,000 | 28,800,000 | 696,910      | 696,910      | 6.95%  | 9/30/2022 | 9/30/2022           | 3M<br>LIBOR<br>+<br>4.993% |
| Series G               | 19,550,000             | 19,550,000 | 17,000,000 | 17,000,000 | 411,335      | 411,335      | 6.50%  | 3/31/2023 | 3/31/2023           | 3M<br>LIBOR<br>+<br>4.172% |
| Total                  | 75,950,000             | 75,950,000 | 73,400,000 | 73,400,000 | \$ 1,778,168 | \$ 1,778,168 |        |           |                     |                            |

(1) Subject to the Company's right under limited circumstances to redeem preferred stock earlier in order to preserve its qualification as a REIT or under limited circumstances related to a change in control of the Company.

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Each series of preferred stock has a par value of \$0.01 per share and a liquidation and redemption price of \$25.00, plus accrued and unpaid dividends through their redemption date. Through March 31, 2019, the Company had declared and paid all required quarterly dividends on the Company's preferred stock.

During the three months ended March 31, 2018, the Company issued 17.0 million shares of its 6.50% Series G Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock ("Series G Preferred Stock") for gross proceeds of \$425.0 million before deducting the underwriting discount and other estimated offering expenses.

During the three months March 31, 2018, the Company redeemed 5.0 million shares of its Series C Cumulative Redeemable Preferred Stock ("Series C Preferred Stock") for \$125.0 million and all 11.5 million of its issued and outstanding shares of Series E Cumulative Redeemable Preferred Stock ("Series E Preferred Stock") for \$287.5 million. The Series C Preferred Stock, Series D Cumulative Redeemable Preferred Stock, Series F Preferred Stock, Series G Preferred Stock and Series H Preferred Stock rank senior to the common stock of the Company.

## (C) Distributions to Stockholders

The following table provides a summary of the Company's dividend distribution activity for the periods presented:

|                                                                                    | For the Three<br>Months Ended<br>March 31, March 31,<br>2019 2018<br>(dollars in<br>thousands, except<br>per share data) |                   |
|------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------|-------------------|
| Dividends and dividend equivalents declared on common stock and share-based awards | \$434,627                                                                                                                | \$347,897         |
| Distributions declared per common share                                            | \$0.30                                                                                                                   | \$0.30            |
| Distributions paid to common stockholders after period end                         | \$434,431                                                                                                                | \$347,897         |
| Distributions paid per common share after period end                               | \$0.30                                                                                                                   | \$0.30            |
| Date of distributions paid to common stockholders after period end                 | April 30,<br>2019                                                                                                        | April 30,<br>2018 |
| Dividends declared to series C preferred stockholders                              | \$3,336                                                                                                                  | \$4,316           |
| Dividends declared per share of series C preferred stock <sup>(1)</sup>            | \$0.477                                                                                                                  | \$0.477           |
| Dividends declared to series D preferred stockholders                              | \$8,625                                                                                                                  | \$8,625           |
| Dividends declared per share of series D preferred stock                           | \$0.469                                                                                                                  | \$0.469           |
| Dividends declared to series E preferred stockholders                              | \$—                                                                                                                      | \$2,253           |
| Dividends declared per share of series E preferred stock                           | \$—                                                                                                                      | \$0.196           |
| Dividends declared to series F preferred stockholders                              | \$12,510                                                                                                                 | \$12,510          |
| Dividends declared per share of series F preferred stock                           | \$0.434                                                                                                                  | \$0.434           |
| Dividends declared to series G preferred stockholders                              | \$6,906                                                                                                                  | \$6,062           |
| Dividends declared per share of series G preferred stock                           | \$0.406                                                                                                                  | \$0.357           |
| Dividends declared to series H preferred stockholders                              | \$1,117                                                                                                                  | \$—               |
| Dividends declared per share of series H preferred stock                           | \$0.508                                                                                                                  | \$—               |

<sup>(1)</sup> Includes dividends declared per share for shares outstanding at March 31, 2018.

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## 15. INTEREST INCOME AND INTEREST EXPENSE

Refer to the note titled “Significant Accounting Policies” for details surrounding the Company’s accounting policy related to net interest income on securities and loans.

The following table summarizes the interest income recognition methodology for Residential Securities:

|                                             | Interest Income Methodology    |
|---------------------------------------------|--------------------------------|
| Agency                                      |                                |
| Fixed-rate pass-through <sup>(1)</sup>      | Effective yield <sup>(3)</sup> |
| Adjustable-rate pass-through <sup>(1)</sup> | Effective yield <sup>(3)</sup> |
| Multifamily <sup>(1)</sup>                  | Contractual Cash Flows         |
| CMO <sup>(1)</sup>                          | Effective yield <sup>(3)</sup> |
| Reverse mortgages <sup>(2)</sup>            | Prospective                    |
| Interest-only <sup>(2)</sup>                | Prospective                    |
| Residential credit                          |                                |
| CRT <sup>(2)</sup>                          | Prospective                    |
| Alt-A <sup>(2)</sup>                        | Prospective                    |
| Prime <sup>(2)</sup>                        | Prospective                    |
| Subprime <sup>(2)</sup>                     | Prospective                    |
| NPL/RPL <sup>(2)</sup>                      | Prospective                    |
| Prime jumbo <sup>(2)</sup>                  | Prospective                    |
| Prime jumbo interest-only <sup>(2)</sup>    | Prospective                    |

<sup>(1)</sup> Changes in fair value are recognized in Other comprehensive income (loss) on the accompanying Consolidated Statements of Comprehensive Income (Loss).

<sup>(2)</sup> Changes in fair value are recognized in Net unrealized gains (losses) on instruments measured at fair value through earnings on the accompanying Consolidated Statements of Comprehensive Income (Loss).

<sup>(3)</sup> Effective yield is recalculated for differences between estimated and actual prepayments and the amortized cost is adjusted as if the new effective yield had been applied since inception.

The following presents the components of the Company’s interest income and interest expense for the three months ended March 31, 2019 and March 31, 2018.

|                                                    | For the Three<br>Months Ended<br>March 31,<br>2019      2018 |           |
|----------------------------------------------------|--------------------------------------------------------------|-----------|
| Interest income                                    | (dollars in<br>thousands)                                    |           |
| Residential securities                             | \$709,774                                                    | \$779,588 |
| Residential mortgage loans <sup>(1)</sup>          | 29,991                                                       | 15,505    |
| Commercial investment portfolio <sup>(1) (2)</sup> | 100,952                                                      | 72,457    |
| Reverse repurchase agreements                      | 25,469                                                       | 11,937    |
| Total interest income                              | \$866,186                                                    | \$879,487 |
| Interest expense                                   |                                                              |           |
| Repurchase agreements                              | 579,514                                                      | 331,374   |

|                                        |           |           |
|----------------------------------------|-----------|-----------|
| Debt issued by securitization vehicles | 34,207    | 15,652    |
| Other                                  | 33,974    | 20,395    |
| Total interest expense                 | 647,695   | 367,421   |
| Net interest income                    | \$218,491 | \$512,066 |

(1) Includes assets transferred or pledged to securitization vehicles.

(2) Includes commercial real estate debt and preferred equity and corporate debt.

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## 16. NET INCOME (LOSS) PER COMMON SHARE

The following table presents a reconciliation of net income (loss) and shares used in calculating basic and diluted net income (loss) per share for the three months ended March 31, 2019 and March 31, 2018.

|                                                                 | For the Three Months<br>Ended                    |                   |
|-----------------------------------------------------------------|--------------------------------------------------|-------------------|
|                                                                 | March 31,<br>2019                                | March 31,<br>2018 |
|                                                                 | (dollars in thousands,<br>except per share data) |                   |
| Net income (loss)                                               | \$(849,251)                                      | \$ 1,327,704      |
| Net income (loss) attributable to noncontrolling interests      | (101 )                                           | (96 )             |
| Net income (loss) attributable to Annaly                        | (849,150 )                                       | 1,327,800         |
| Dividends on preferred stock                                    | 32,494                                           | 33,766            |
| Net income (loss) available (related) to common stockholders    | \$(881,644)                                      | \$ 1,294,034      |
| Weighted average shares of common stock outstanding-basic       | 1,398,614,205                                    | 1,159,617,848     |
| Add: Effect of stock awards, if dilutive                        | —                                                | 485,337           |
| Weighted average shares of common stock outstanding-diluted     | 1,398,614,205                                    | 1,160,103,185     |
| Net income (loss) per share available (related) to common share |                                                  |                   |
| Basic                                                           | \$(0.63 )                                        | \$ 1.12           |
| Diluted                                                         | \$(0.63 )                                        | \$ 1.12           |

Options to purchase 0.2 million shares and 0.8 million shares of common stock were outstanding and considered anti-dilutive as their exercise price and option expense exceeded the average stock price for the three months ended March 31, 2019 and March 31, 2018, respectively.

## 17. INCOME TAXES

For the three months ended March 31, 2019 the Company was qualified to be taxed as a REIT under Code Sections 856 through 860. As a REIT, the Company will not incur federal income tax to the extent that it distributes its taxable income to its stockholders. To maintain qualification as a REIT, the Company must distribute at least 90% of its annual REIT taxable income to its stockholders and meet certain other requirements that relate to, among other things, assets it may hold, income it may generate and its stockholder composition. It is generally the Company's policy to distribute 100% of its REIT taxable income. To the extent there is any undistributed REIT taxable income at the end of a year, the Company distributes such shortfall within the next year as permitted by the Code.

The Company and certain of its direct and indirect subsidiaries, including Annaly TRS, Inc. and certain subsidiaries of Mountain Merger Sub Corp., have made separate joint elections to treat these subsidiaries as TRSs. As such, each of these TRSs is taxable as a domestic C corporation and subject to federal, state and local income taxes based upon their taxable income.

The provisions of ASC 740, Income Taxes ("ASC 740"), clarify the accounting for uncertainty in income taxes recognized in financial statements and prescribe a recognition threshold and measurement attribute for uncertain tax positions taken or expected to be taken on a tax return. ASC 740 also requires that interest and penalties related to unrecognized tax benefits be recognized in the financial statements. The Company does not have any unrecognized tax benefits that would affect its financial position. Thus, no accruals for penalties and interest were deemed necessary at March 31, 2019 and December 31, 2018.

The state and local tax jurisdictions for which the Company is subject to tax-filing obligations recognize the Company's status as a REIT, and therefore, the Company generally does not pay income tax in such jurisdictions. The Company may, however, be subject to certain minimum state and local tax filing fees as well as certain excise,

franchise or business taxes. The Company's TRSs are subject to federal, state and local taxes.

During the three months ended March 31, 2019 and March 31, 2018, the Company recorded \$2.6 million and \$0.6 million, respectively, of income tax expense attributable to its TRSs. The Company's federal, state and local tax returns from 2015 and forward remain open for examination.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

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18. RISK MANAGEMENT

The primary risks to the Company are capital, liquidity and funding risk, investment/market risk and credit risk. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond the Company's control. Changes in the general level of interest rates can affect net interest income, which is the difference between the interest income earned on interest earning assets and the interest expense incurred in connection with the interest bearing liabilities, by affecting the spread between the interest earning assets and interest bearing liabilities. Changes in the level of interest rates can also affect the value of the interest earning assets and the Company's ability to realize gains from the sale of these assets. A decline in the value of the interest earning assets pledged as collateral for borrowings under repurchase agreements and derivative contracts could result in the counterparties demanding additional collateral or liquidating some of the existing collateral to reduce borrowing levels.

The Company may seek to mitigate the potential financial impact by entering into interest rate agreements such as interest rate swaps, interest rate swaptions and other hedges.

Weakness in the mortgage market, the shape of the yield curve and changes in the expectations for the volatility of future interest rates may adversely affect the performance and market value of the Company's investments. This could negatively impact the Company's book value. Furthermore, if many of the Company's lenders are unwilling or unable to provide additional financing, the Company could be forced to sell its investments at an inopportune time when prices are depressed. The Company has established policies and procedures for mitigating risks, including conducting scenario and sensitivity analyses and utilizing a range of hedging strategies.

The payment of principal and interest on the Freddie Mac and Fannie Mae Agency mortgage-backed securities, which exclude CRT securities issued by Freddie Mac and Fannie Mae, is guaranteed by those respective agencies and the payment of principal and interest on Ginnie Mae Agency mortgage-backed securities is backed by the full faith and credit of the U.S. government. Substantially all of the Company's Agency mortgage-backed securities have an actual or implied "AAA" rating.

The Company faces credit risk on the portions of its portfolio which are not guaranteed by the respective Agency or by the full faith and credit of the U.S. government. The Company is exposed to credit risk on CRE Debt and Preferred Equity Investments, real estate investments, commercial mortgage-backed securities, residential mortgage loans, CRT securities, other non-Agency mortgage-backed securities and corporate debt. MSR values may also be adversely impacted if overall costs to service the underlying mortgage loans increase due to borrower performance. The Company is exposed to risk of loss if an issuer, borrower, tenant or counterparty fails to perform its obligations under contractual terms. The Company has established policies and procedures for mitigating credit risk, including reviewing and establishing limits for credit exposure, limiting transactions with specific counterparties, maintaining qualifying collateral and continually assessing the creditworthiness of issuers, borrowers, tenants and counterparties.

19. RELATED PARTY TRANSACTIONS

Management Agreement

The Company and the Manager have entered into a management agreement pursuant to which the Company's management is conducted by the Manager through the authority delegated to it in the Management Agreement and pursuant to the policies established by the Board (the "Externalization"). The management agreement was effective as of July 1, 2013 and was amended on November 5, 2014, amended and restated on April 12, 2016, amended and restated on August 1, 2018, and amended on March 27, 2019 (the management agreement, as amended and restated, is referred to as "Management Agreement").

Under the Management Agreement, the Manager, subject to the supervision and direction of the Board, is responsible for (i) the selection, purchase and sale of assets for the Company's investment portfolio; (ii) recommending alternative forms of capital raising; (iii) supervising the Company's financing and hedging activities; and (iv) day to day management functions. The Manager also performs such other supervisory and management services and activities

relating to the Company's assets and operations as may be appropriate. In exchange for the management services, the Company pays the Manager a monthly management fee, and the Manager is responsible for providing personnel to manage the Company, and determining all compensation and benefit expenses associated with such personnel. Prior to the most recent amendment to the Management Agreement, which was executed on March 27, 2019, the Company had paid the Manager a flat monthly management fee equal to 1/12th of 1.05% of Stockholders' Equity (as defined in the Management Agreement) for its management services. Pursuant to the March 27, 2019 amendment to the Management Agreement, the Company now pays the Manager a monthly management fee for its management services in an amount equal to 1/12th of the sum of (i) 1.05% of Stockholders' Equity (as defined in the Management Agreement) up to \$17.28 billion, and (ii) 0.75% of Stockholders' Equity (as defined in the Management Agreement) in excess of \$17.28 billion. The Company does not pay the Manager any incentive fees.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

Item 1. Financial Statements

For the three months ended March 31, 2019 and 2018, the compensation and management fee was \$44.8 million and \$44.5 million, respectively.

Following the unanimous approval of the Company's independent directors (the "Independent Directors"), in August 2018, the Company began reimbursing the Manager for certain services in connection with the management and operations of the Company and its subsidiaries as permitted under the terms of the Management Agreement. Such reimbursable expenses include the cost for certain legal, tax, accounting and other support and advisory services provided by employees of the Manager to the Company. Pursuant to the Management Agreement, the Company may reimburse the Manager for the cost of such services, provided such costs are no greater than those that would be payable to comparable third party providers. For the three months ended March 31, 2019, reimbursement payments to the Manager were \$7.1 million. None of the reimbursement payments are attributable to compensation of the Company's executive officers.

At March 31, 2019 and December 31, 2018 the Company had amounts payable to the Manager of \$17.1 million and \$16.0 million, respectively.

The Management Agreement's current term ends on December 31, 2019 and will automatically renew for successive two-year terms unless at least two-thirds of the Independent Directors or the holders of a majority of the outstanding shares of the Company's common stock in their sole discretion elect to terminate the agreement for any or no reason upon 365 days prior written notice (such notice, a "Termination Notice").

If the Company makes an election to terminate the Management Agreement, the Company may elect to accelerate the termination date (the "Termination Date") to a date that is between seven and 90 days after the date of the Company's delivery of a Termination Notice (the "Notice Delivery Date"). If the Company does not make an election to accelerate the Termination Date, then the Manager may elect to accelerate the Termination Date to the date that is 90 days after the Notice Delivery Date. If the Termination Date is accelerated (such date, the "Accelerated Termination Date") by either the Company or the Manager, in addition to any amounts accrued for the period prior to the Accelerated Termination Date, the Company shall pay the Manager an acceleration fee (the "Acceleration Fee") in an amount equal to the average annual management fee earned by the Manager during the 24-month period immediately preceding such Accelerated Termination Date multiplied by a fraction with a numerator of 365 minus the number of days from the Notice Delivery Date to the Accelerated Termination Date, and a denominator of 365.

The Management Agreement may also be terminated by the Manager for any reason or no reason upon 365 days prior written notice, or with shorter notice periods by either the Company or the Manager for cause or by the Company in the event of a sale of the Manager that was not pre-approved by the Independent Directors.

The Management Agreement may be amended or modified by agreement between the Company and the Manager.

## 20. LEASE COMMITMENTS AND CONTINGENCIES

The Company adopted ASU 2016-02, Leases (Topic 842) on January 1, 2019 with no impact to retained earnings or other components of equity. The Company's operating leases are primarily comprised of a corporate office lease with a remaining lease term of six years. The corporate office lease includes an option to extend for up to five years, however the extension term was not included in the operating lease liability calculation. Leases with an initial term of 12 months or less are not recorded on the balance sheet. The Company recognizes lease expense for these leases on a straight-line basis over the lease term.

Supplemental information related to leases as of and for the three months ended March 31, 2019 was as follows:

## ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

## Item 1. Financial Statements

|                                                                        |                                           |                |
|------------------------------------------------------------------------|-------------------------------------------|----------------|
| Operating Leases                                                       | Classification                            | March 31, 2019 |
| Assets                                                                 | (dollars in thousands)                    |                |
| Operating lease right-of-use assets                                    | Other assets                              | \$17,691       |
| Liabilities                                                            |                                           |                |
| Operating lease liabilities <sup>(1)</sup>                             | Other liabilities                         | \$22,756       |
| Lease term and discount rate                                           |                                           |                |
| Weighted average remaining lease term                                  |                                           | 6.4 Years      |
| Weighted average discount rate <sup>(1)</sup>                          |                                           | 2.9%           |
| Lease cost                                                             |                                           |                |
| Operating lease cost                                                   | Other general and administrative expenses | \$791          |
| Cash paid for amounts included in the measurement of lease liabilities |                                           |                |
| Operating cash flows from operating leases                             |                                           | \$928          |

<sup>(1)</sup> As the Company's leases do not provide an implicit rate, the Company uses an incremental borrowing rate based on the information available at adoption date in determining the present value of lease payments.

The following table provides details related to maturities of lease liabilities:

| Years ending December 31,          | Maturity of Lease Liabilities (dollars in thousands) |
|------------------------------------|------------------------------------------------------|
| 2019 (remaining)                   | \$ 2,784                                             |
| 2020                               | 3,799                                                |
| 2021                               | 3,918                                                |
| 2022                               | 3,862                                                |
| 2023                               | 3,862                                                |
| Later years                        | 6,757                                                |
| Total lease payments               | \$ 24,982                                            |
| Less imputed interest              | 2,226                                                |
| Present value of lease liabilities | \$ 22,756                                            |

## Contingencies

From time to time, the Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material effect on the Company's consolidated financial statements. There were no material contingencies at March 31, 2019 and December 31, 2018.

## 21. ARCOLA REGULATORY REQUIREMENTS

Arcola is the Company's wholly owned and consolidated broker-dealer. Arcola is subject to regulations of the securities business that include but are not limited to trade practices, use and safekeeping of funds and securities, capital structure, recordkeeping and conduct of directors, officers and employees.

Arcola is a member of various clearing organizations with which it maintains cash required to conduct its day-to-day clearance activities. Arcola enters into reverse repurchase agreements and repurchase agreements as part of its matched book trading activity. Reverse repurchase agreements are recorded on settlement date at the contractual amount and are collateralized by mortgage-backed or other securities. Arcola generates income from the spread

between what is earned on the reverse repurchase agreements and what is paid on the matched repurchase agreements. Arcola's policy is to obtain possession of collateral with a market value in excess of the principal amount loaned under reverse repurchase agreements. To ensure that the market value of the underlying collateral remains sufficient, collateral is valued daily, and Arcola will require counterparties to deposit additional collateral, when necessary. All reverse repurchase activities are transacted under master repurchase agreements or other documentation that give Arcola the right, in the event of default, to liquidate collateral held and in some instances, to offset receivables and payables with the same counterparty.

As a member of the Financial Industry Regulatory Authority ("FINRA"), Arcola is required to maintain a minimum net capital balance. At March 31, 2019 Arcola had a minimum net capital requirement of \$0.3 million. Arcola consistently operates with capital in excess of its regulatory capital requirements. Arcola's regulatory net capital as defined by SEC Rule 15c3-1, at March 31, 2019 was \$389.5 million with excess net capital of \$389.2 million.

## ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

## Item 1. Financial Statements

## 22. ACQUISITION OF MTGE INVESTMENT CORP.

On September 7, 2018, Mountain Merger Sub Corporation, a wholly-owned subsidiary of the Company, completed its acquisition of MTGE Investment Corp. (“MTGE”), an externally managed hybrid mortgage REIT, for aggregate consideration to MTGE common shareholders of \$906.2 million, consisting of \$455.9 million in equity consideration and \$450.3 million in cash consideration (the “MTGE Acquisition”). The Company issued 43.6 million common stock as part of the consideration for the MTGE Acquisition. In addition, as part of the MTGE Acquisition, each share of MTGE 8.125% Series A Cumulative Redeemable Preferred Stock, par value \$0.01 per share (each, a “MTGE Preferred Share”), that was outstanding as of immediately prior to the completion of the MTGE Acquisition was converted into one share of a newly-designated series of the Company’s preferred stock, par value \$0.01 per share, which the Company classified and designated as Series H Preferred Stock, and which have rights, preferences, privileges and voting powers substantially the same as a MTGE Preferred Share.

The MTGE Acquisition was accounted for as an asset acquisition in accordance with Accounting Standards Codification 805 Business Combinations (“ASC 805”). Under ASC 805, an acquisition does not qualify as a business combination if the acquisition does not meet the definition of a business. GAAP defines a business as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs, or other economic benefits directly to investors or other owners, members, or participants. Since the Company did not acquire the external management agreement with the MTGE’s third party manager, there were no substantive processes acquired as part of the acquisition. Therefore, the MTGE Acquisition was not considered a business combination.

Under ASC 805, an asset acquisition is accounted for under the cost accumulation model which allocates the cost of the acquisition which generally includes direct transaction costs to the individual assets acquired and liabilities assumed on the basis of relative fair value with certain exceptions including financial assets and current assets. These exceptions are excluded from the cost accumulation method since recognizing these assets at amounts other than their fair value would result in a subsequent gain or loss upon re-measurement. The allocation of the consideration paid as part of the transaction and its assignment to the initial carrying value of the MTGE portfolio is noted in the below table.

|                                                             | September<br>2018<br>(dollars in<br>thousands) |
|-------------------------------------------------------------|------------------------------------------------|
| Consideration transferred                                   |                                                |
| Cash                                                        | \$ 450,287                                     |
| Common equity                                               | 455,943                                        |
| Preferred shares                                            |                                                |
| Exchange of MTGE preferred stock for Annaly preferred stock | 55,000                                         |
| Total consideration                                         | \$ 961,230                                     |
| Net assets                                                  |                                                |
| Cash and cash equivalents                                   | \$ 191,953                                     |
| Securities                                                  | 4,111,930                                      |
| Real estate, net                                            | 277,648                                        |
| Derivative assets                                           | 18,629                                         |
| Reverse repurchase agreements                               | 938,251                                        |
| Receivable for unsettled trades                             | 6,809                                          |
| Principal receivable                                        | 44,462                                         |
| Interest receivable                                         | 14,282                                         |
| Intangible assets, net                                      | 14,483                                         |
| Other assets                                                | 50,105                                         |
| Total assets acquired                                       | 5,668,552                                      |

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|                                                  |            |
|--------------------------------------------------|------------|
| Repurchase agreements                            | 3,561,816  |
| Mortgages payable                                | 201,629    |
| U.S. Treasury securities sold, not yet purchased | 934,149    |
| Derivative liabilities                           | 2,498      |
| Interest payable                                 | 22,220     |
| Dividends payable                                | 819        |
| Other liabilities                                | 28,715     |
| Total liabilities assumed                        | 4,751,846  |
| Net assets acquired                              | \$ 916,706 |

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ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

Item 1. Financial Statements

23. SUBSEQUENT EVENTS

In April 2019, the Company completed and closed its second securitization of residential mortgage loans for the 2019 calendar year, OBX 2019-EXP1 Trust, with a face value of \$388.2 million. The securitization represented a financing transaction which provided non-recourse financing to the Company collateralized by residential mortgage loans purchased by the Company.

On May 1, 2019, the Company announced that it will redeem all 2.2 million of its outstanding shares of Series H Preferred Stock at a redemption price per share of \$25.00 plus accumulated and unpaid dividends per share to, but not including, the redemption date of May 31, 2019.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Special Note Regarding Forward-Looking Statements

Certain statements contained in this quarterly report, and certain statements contained in our future filings with the Securities and Exchange Commission (the "SEC" or the "Commission"), in our press releases or in our other public or stockholder communications contain or incorporate by reference certain forward-looking statements which are based on various assumptions (some of which are beyond our control) and may be identified by reference to a future period or periods or by the use of forward-looking terminology, such as "may," "will," "believe," "expect," "anticipate," "continue," or similar terms or variations on those terms or the negative of those terms. Actual results could differ materially from those set forth in forward-looking statements due to a variety of factors, including, but not limited to, changes in interest rates; changes in the yield curve; changes in prepayment rates; the availability of mortgage-backed securities and other securities for purchase; the availability of financing and, if available, the terms of any financing; changes in the market value of our assets; changes in business conditions and the general economy; our ability to grow our commercial business; our ability to grow our residential credit business; our ability to grow our middle market lending business; credit risks related to our investments in credit risk transfer securities, residential mortgage-backed securities and related residential mortgage credit assets, commercial real estate assets and corporate debt; risks related to investments in MSRs; our ability to consummate any contemplated investment opportunities; changes in government regulations or policy affecting our business; our ability to maintain our qualification as a REIT for U.S. federal income tax purposes; and our ability to maintain our exemption from registration under the Investment Company Act. For a discussion of the risks and uncertainties which could cause actual results to differ from those contained in the forward-looking statements, see "Risk Factors" in our most recent Annual Report on Form 10-K and Item 1A "Risk Factors" in this quarterly report on Form 10-Q. We do not undertake, and specifically disclaim any obligation, to publicly release the result of any revisions which may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our most recent annual report on Form 10-K. All references to "Annaly," "we," "us," or "our" mean Annaly Capital Management, Inc. and all entities owned by us, except where it is made clear that the term means only the parent company. Refer to the section titled "Glossary of Terms" located at the end of this Item 2 for definitions of commonly used terms in this quarterly report on Form 10-Q.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis

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ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis

Overview

We are a leading diversified capital manager that invests in and finances residential and commercial assets. Our principal business objective is to generate net income for distribution to our stockholders and to preserve capital through prudent selection of investments and continuous management of our portfolio. We are a Maryland corporation that has elected to be taxed as a REIT. We are externally managed by Annaly Management Company LLC ("Manager"). Our common stock is listed on the New York Stock Exchange under the symbol "NLY."

We use our capital coupled with borrowed funds to invest primarily in real estate related investments, earning the spread between the yield on our assets and the cost of our borrowings and hedging activities.

For a full discussion of our business, refer to the section titled "Business Overview" in our most recent Annual Report on Form 10-K.

Business Environment

In the first quarter of 2019, financial conditions eased significantly as the Federal Reserve (the "Fed") shifted from messaging continued interest rate hikes to a more patient posture with a pause in the hiking cycle. Furthermore, the Fed announced an end to balance sheet runoff, also known as quantitative tightening, in September of 2019. These moves by the central bank helped create an environment beneficial for risk assets and caused credit spreads to tighten significantly from the end of 2018. Although spreads on Agency mortgage-backed securities also tightened from their year-end levels, they underperformed other credit assets. Furthermore, performance in Agency mortgage-backed securities was bifurcated with specified pools performing materially better than to-be-announced ("TBA") securities, as the market grew concerned about the quality of mortgage pools that are likely to be delivered into TBA contracts. The major question regarding the outlook remains whether the Fed's changes in monetary policy are sufficient to extend the uninterrupted ten year economic expansion into 2020, despite slowing global economic growth and the decline in economic growth stimulus from tax cuts and fiscal spending. Thus, in the current environment, we remain highly selective in evaluating credit opportunities. While the fundamentals on Agency mortgage-backed securities continue to be robust, the technical landscape remains challenging. Healthy organic growth combined with the Fed shrinking its Agency mortgage-backed securities holdings are likely to lead to over \$400 billion in net issuance in 2019. The flat yield curve and the recent tightening in spread between LIBOR and overnight indexed swaps ("OIS") continues to put pressure on the spread between asset yield and funding costs. Despite these head winds, we find risk-adjusted returns on Agency mortgage-backed securities attractive. Prepayment activity has been muted so far and the recent decline in volatility has materially reduced option costs on mortgage-backed securities.

Absent a material change in the economy or the posture of the Fed, this combination of reduced option cost, less attractive funding, and a flat yield curve is likely to persist. While the attractive risk adjusted returns will continue to favor allocation to Agency mortgage-backed securities, the lower spread of asset yields to funding will pressure core earnings and dividends. In light of this dynamic, on May 1, 2019, we announced that we expect to declare a quarterly common stock dividend of \$0.25 per common share for the remainder of 2019 beginning with the second quarter of 2019, subject to the discretion and approval of our Board.

Economic Environment

The pace of economic growth remained roughly unchanged from its robust 2018 growth rate, with gross domestic product ("GDP") registering an annualized 3.2% growth rate in the first quarter of 2019. Economic growth nonetheless included a reduction in personal consumption and slower running business investments, which contributed a combined 1.1% to the annualized GDP growth rate in the current quarter, compared to 2.5% on average in the four quarters of 2018.

Inflation fell below the Fed's 2% target in the first quarter as measured by the year-over-year changes in the Personal Consumption Expenditure Chain Price Index ("PCE"). The headline PCE measure increased by 1.5% year-over-year in March 2019. The more stable core PCE measure, which excludes volatile food and energy prices, registered an increase of 1.6% year-over-year, on a broad-based slowdown in price increases in a number of inflation-components.

The Fed expects the core and headline PCE measures to rebound to levels close to their 2% target over the medium term following the shift in monetary policy seen in the quarter.

The Fed currently conducts monetary policy with a dual mandate: full employment and price stability. The unemployment rate fell from 3.9% to 3.8% during the first quarter 2019, remaining below the Fed's estimate of the long-run unemployment rate of 4.3%, according to the Bureau of Labor Statistics and Federal Reserve Board. The economy added 180,000 jobs per month in the first quarter 2019, down from 223,000 jobs added per month in 2018. Wage growth, as measured by the year-over-year change in private sector Average Hourly Earnings, remained healthy, reading 3.2% in March 2019 compared to 3.3% in December 2018.

In the first quarter, the Federal Open Market Committee ("FOMC") conducted a meaningful change to monetary policy, effectively ending the increases to the Federal Funds Target Rate, which had occurred at nearly every other meeting between December 2016 and December 2018 (eight times in total). Each increase was 25 basis points, bringing the target range to 2.25-2.50% at year-end

## ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

## Item 2. Management's Discussion and Analysis

2018. However, disappointing economic growth overseas, a slowdown in the manufacturing sector growth, and lower realized inflation led the FOMC to temporarily pause on further hikes to the Federal Funds Target Rate, communicating that it plans to keep the rate unchanged for the remainder of 2019 in order to support growth and inflation. Meanwhile, the FOMC also changed its plan for balance sheet runoff. The Fed announced that it plans to end its portfolio runoff for U.S. Treasury securities, effectively lowering the current \$30 billion monthly runoff cap to \$15 billion per month in May 2019 and to \$0 per month in October 2019. While Treasury maturities will be rolled over into new Treasury securities, Agency mortgage-backed securities holdings will continue to shrink by up to \$20 billion per month, with proceeds being reinvested into Treasury securities starting in October 2019.

During the quarter ended March 31, 2019, the 10-year U.S. Treasury rate rallied more than 20 basis points as the shift in Federal Reserve communications lowered interest rates, while concerns around economic growth supported demand for safe assets, such as U.S. Treasuries. The mortgage basis, or the spread between the 30-year Agency mortgage-backed security coupon and 10-year U.S. Treasury rate, contracted as mortgage-backed securities saw more limited supply as a result of seasonal factors while demand, particularly from banks and foreign investors, was robust. The following table below presents interest rates and spreads at each date presented:

|                                 | March 31, 2019 | December 31, 2018 | March 31, 2018 |
|---------------------------------|----------------|-------------------|----------------|
| 30-Year mortgage current coupon | 3.11%          | 3.50%             | 3.46%          |
| Mortgage basis                  | 70 bps         | 82 bps            | 72 bps         |
| 10-Year U.S. Treasury rate      | 2.41%          | 2.68%             | 2.74%          |
| LIBOR                           |                |                   |                |
| 1-Month                         | 2.49%          | 2.50%             | 1.88%          |
| 6-Month                         | 2.66%          | 2.88%             | 2.45%          |

## Results of Operations

The results of our operations are affected by various factors, many of which are beyond our control. Certain of such risks and uncertainties are described herein (see "Special Note Regarding Forward-Looking Statements" above) and in Part I, Item 1A. "Risk Factors" of our most recent Annual Report on Form 10-K.

This Management Discussion and Analysis section contains analysis and discussion of financial results computed in accordance with U.S. generally accepted accounting principles ("GAAP") and non-GAAP measurements. To supplement our consolidated financial statements, which are prepared and presented in accordance with GAAP, we provide non-GAAP financial measures to enhance investor understanding of our period-over-period operating performance and business trends, as well as for assessing our performance versus that of industry peers. Please refer to the "Non-GAAP Financial Measures" section for additional information.

## Net Income (Loss) Summary

The following table presents financial information related to our results of operations as of and for the three months ended March 31, 2019 and 2018.

|                                           | As of and for the Three Months<br>Ended March 31,<br>2019                      2018<br>(dollars in thousands, except per<br>share data) |           |
|-------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------|-----------|
| Interest income                           | \$866,186                                                                                                                               | \$879,487 |
| Interest expense                          | 647,695                                                                                                                                 | 367,421   |
| Net interest income                       | 218,491                                                                                                                                 | 512,066   |
| Realized and unrealized gains (losses)    | (1,011,926)                                                                                                                             | 844,689   |
| Other income (loss)                       | 30,502                                                                                                                                  | 34,023    |
| Less: General and administrative expenses | 83,737                                                                                                                                  | 62,510    |

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|                                                                         |               |    |               |   |
|-------------------------------------------------------------------------|---------------|----|---------------|---|
| Income (loss) before income taxes                                       | (846,670      | )  | 1,328,268     |   |
| Income taxes                                                            | 2,581         |    | 564           |   |
| Net income (loss)                                                       | (849,251      | )  | 1,327,704     |   |
| Less: Net income (loss) attributable to noncontrolling interests        | (101          | )  | (96           | ) |
| Net income (loss) attributable to Annaly                                | (849,150      | )  | 1,327,800     |   |
| Less: Dividends on preferred stock                                      | 32,494        |    | 33,766        |   |
| Net income (loss) available (related) to common stockholders            | \$(881,644    | )  | \$1,294,034   |   |
| Net income (loss) per share available (related) to common stockholders  |               |    |               |   |
| Basic                                                                   | \$(0.63       | )  | \$1.12        |   |
| Diluted                                                                 | \$(0.63       | )  | \$1.12        |   |
| Weighted average number of common shares outstanding                    |               |    |               |   |
| Basic                                                                   | 1,398,614,205 |    | 1,159,617,848 |   |
| Diluted                                                                 | 1,398,614,205 |    | 1,160,103,185 |   |
| Other information                                                       |               |    |               |   |
| Asset portfolio at period-end                                           | \$114,472,879 |    | \$98,080,871  |   |
| Average total assets                                                    | \$112,480,038 |    | \$101,071,142 |   |
| Average equity                                                          | \$14,949,623  |    | \$14,407,254  |   |
| Leverage at period-end <sup>(1)</sup>                                   | 6.1:1         |    | 6.1:1         |   |
| Economic leverage at period-end <sup>(2)</sup>                          | 7.0:1         |    | 6.5:1         |   |
| Capital ratio <sup>(3)</sup>                                            | 12.0          | %  | 13.1          | % |
| Annualized return on average total assets                               | (3.02         | %) | 5.25          | % |
| Annualized return on average equity                                     | (22.72        | %) | 36.86         | % |
| Annualized core return on average equity (excluding PAA) <sup>(4)</sup> | 11.59         | %  | 10.70         | % |
| Net interest margin <sup>(5)</sup>                                      | 1.25          | %  | 1.94          | % |
| Net interest margin (excluding PAA) <sup>(4)</sup>                      | 1.51          | %  | 1.52          | % |
| Average yield on interest earning assets                                | 3.15          | %  | 3.45          | % |
| Average yield on interest earning assets (excluding PAA) <sup>(4)</sup> | 3.45          | %  | 2.99          | % |
| Average cost of interest bearing liabilities <sup>(6)</sup>             | 2.15          | %  | 1.90          | % |
| Net interest spread                                                     | 1.00          | %  | 1.55          | % |
| Net interest spread (excluding PAA) <sup>(4)</sup>                      | 1.30          | %  | 1.09          | % |
| Constant prepayment rate                                                | 7.3           | %  | 8.9           | % |
| Long-term constant prepayment rate                                      | 11.6          | %  | 9.2           | % |
| Common stock book value per share                                       | \$9.67        |    | \$10.53       |   |
| Interest income (excluding PAA) <sup>(4)</sup>                          | \$948,057     |    | \$761,092     |   |
| Economic interest expense <sup>(4) (6)</sup>                            | \$513,660     |    | \$415,581     |   |
| Economic net interest income (excluding PAA) <sup>(4)</sup>             | \$434,397     |    | \$345,511     |   |
| Core earnings <sup>(4)</sup>                                            | \$351,284     |    | \$503,667     |   |
| Premium amortization adjustment cost (benefit)                          | \$81,871      |    | \$(118,395    | ) |
| Core earnings (excluding PAA) <sup>(4)</sup>                            | \$433,155     |    | \$385,272     |   |
| Core earnings per common share <sup>(4)</sup>                           | \$0.23        |    | \$0.41        |   |
| PAA cost (benefit) per common share <sup>(4)</sup>                      | \$0.06        |    | \$(0.11       | ) |
| Core earnings (excluding PAA) per common share <sup>(4)</sup>           | \$0.29        |    | \$0.30        |   |

<sup>(1)</sup> Debt consists of repurchase agreements, other secured financing, debt issued by securitization vehicles and mortgages payable. Debt issued by securitization vehicles, certain credit facilities (included within other secured financing), and mortgages payable are non-recourse to us.

<sup>(2)</sup> Computed as the sum of Recourse Debt, TBA derivative and CMBX notional outstanding and net forward purchases (sales) of investments divided by total equity.

<sup>(3)</sup> Calculated as total stockholders' equity divided by total assets inclusive of outstanding market value of TBA positions and exclusive of consolidated VIEs.

<sup>(4)</sup> Represents a non-GAAP financial measure. Refer to the "Non-GAAP Financial Measures" section for additional information.

(5) Represents the sum of our interest income plus TBA dollar roll income and CMBX coupon income less interest expense and the net interest component of interest rate swaps divided by the sum of average Interest Earning Assets plus average outstanding TBA contract and CMBX balances.

(6) Average cost on interest bearing liabilities represents annualized economic interest expense divided by average interest bearing liabilities. Average interest bearing liabilities reflects the average amortized cost during the period. Economic interest expense is comprised of GAAP interest expense and the net interest component of interest rate swaps.

#### GAAP

Net income (loss) was (\$849.3) million, which includes (\$0.1) million attributable to noncontrolling interests, or \$(0.63) per average basic common share, for the three months ended March 31, 2019 compared to \$1.3 billion, which includes (\$0.1) million attributable to noncontrolling interests, or \$1.12 per average basic common share, for the same period in 2018. We attribute the majority of the change in net income (loss) to unfavorable changes in unrealized gains (losses) on interest rate swaps and realized gains (losses) on termination or maturity of interest rate swaps, and higher interest expense. Net unrealized gains (losses) on interest rate swaps was (\$390.6) million for the three months ended March 31, 2019 compared to \$977.3 million for the same period in 2018. Realized gains (losses) on termination or maturity of interest rate swaps was (\$588.3) million for the three months ended March 31, 2019 compared to \$0.8 million for the same period in 2018. Refer to the section titled “Realized and Unrealized Gains (Losses)” located within this Item 2 for additional information related to these changes. Interest expense increased to \$647.7 million for the three months ended March 31, 2019 compared to \$367.4 million for the same period in 2018, reflecting higher borrowing rates and an increase in average Interest Bearing Liabilities.

#### Non-GAAP

Core earnings (excluding premium amortization adjustment (“PAA”)) were \$433.2 million, or \$0.29 per average common share, for the three months ended March 31, 2019, compared to \$385.3 million, or \$0.30 per average common share, for the same period in 2018. Core earnings (excluding PAA) increased during the three months ended March 31, 2019 compared to the same period in 2018 primarily due to higher coupon income earned resulting from an increase in average Interest Earning Assets and favorable changes in the net interest component of interest rate swaps, partially offset by an increase in interest expense from higher borrowing rates and an increase in average Interest Bearing Liabilities.

#### Non-GAAP Financial Measures

Beginning with the quarter ended September 30, 2018, we updated our calculation of core earnings and related metrics to reflect changes to our portfolio composition and operations, including the acquisition of MTGE Investment Corp. (“MTGE”) in September 2018. Compared to prior periods, the revised definition of core earnings includes coupon income (expense) on CMBX positions (reported in Net gains (losses) on other derivatives) and excludes depreciation and amortization expense on real estate and related intangibles (reported in Other income (loss)), non-core income (loss) allocated to equity method investments (reported in Other income (loss)) and the income tax effect of non-core income (loss) (reported in Income taxes). Prior period results have not been adjusted to conform to the revised calculation as the impact in each of those periods is not material.

To supplement our consolidated financial statements, which are prepared and presented in accordance with GAAP, we provide the following non-GAAP financial measures.

- core earnings and core earnings (excluding PAA);
- core earnings attributable to common stockholders and core earnings attributable to common stockholders (excluding PAA);
- core earnings and core earnings (excluding PAA) per average common share;
- annualized core return on average equity (excluding PAA);
- interest income (excluding PAA);

• economic interest expense;  
• economic net interest income (excluding PAA);  
• average yield on Interest Earning Assets (excluding PAA);  
• net interest margin (excluding PAA); and  
• net interest spread (excluding PAA).

These measures should not be considered a substitute for, or superior to, financial measures computed in accordance with GAAP. While intended to offer a fuller understanding of our results and operations, non-GAAP financial measures also have limitations. For example, we may calculate our non-GAAP metrics, such as core earnings, or the PAA, differently than our peers making comparative analysis difficult. Additionally, in the case of non-GAAP measures that exclude the PAA, the amount of amortization expense excluding the PAA is not necessarily representative of the amount of future periodic amortization nor is it indicative of the term over which we will amortize the remaining unamortized premium. Changes to actual and estimated prepayments will impact the timing and amount of premium amortization and, as such, both GAAP and non-GAAP results.

These non-GAAP measures provide additional detail to enhance investor understanding of our period-over-period operating performance and business trends, as well as for assessing our performance versus that of industry peers. Additional information pertaining to our use of these non-GAAP financial measures, including discussion of how each such measure may be useful to investors, and reconciliations to their most directly comparable GAAP results are provided below.

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Core earnings and core earnings (excluding PAA), core earnings attributable to common stockholders and core earnings attributable to common stockholders (excluding PAA), core earnings and core earnings (excluding PAA) per average common share and annualized core return on average equity (excluding PAA)

Our principal business objective is to generate net income for distribution to our stockholders and to preserve capital through prudent selection of investments and continuous management of our portfolio. We generate net income by earning a net interest spread on our investment portfolio, which is a function of interest income from our investment portfolio less financing, hedging and operating costs. Core earnings, which is defined as the sum of (a) economic net interest income, (b) TBA dollar roll income and CMBX coupon income, (c) realized amortization of MSRs, (d) other income (loss) (excluding depreciation and amortization expense on real estate and related intangibles, non-core income allocated to equity method investments and other non-core components of other income (loss)), (e) general and administrative expenses (excluding transaction expenses and non-recurring items) and (f) income taxes (excluding the income tax effect of non-core income (loss) items), and core earnings (excluding PAA), which is defined as core earnings excluding the premium amortization adjustment representing the cumulative impact on prior periods, but not the current period, of quarter-over-quarter changes in estimated long-term prepayment speeds related to our Agency mortgage-backed securities, are used by management and, we believe, used by analysts and investors to measure our progress in achieving our principal business objective.

We seek to fulfill our principal business objective through a variety of factors including portfolio construction, the degree of market risk exposure and related hedge profile, and the use and forms of leverage, all while operating within the parameters of our capital allocation policy and risk governance framework.

We believe these non-GAAP measures provide management and investors with additional details regarding our underlying operating results and investment portfolio trends by (i) making adjustments to account for the disparate reporting of changes in fair value where certain instruments are reflected in GAAP net income (loss) while others are reflected in other comprehensive income (loss), and (ii) by excluding certain unrealized, non-cash or episodic components of GAAP net income (loss) in order to provide additional transparency into the operating performance of our portfolio. Annualized core return on average equity (excluding PAA), which is calculated by dividing core earnings (excluding PAA) over average stockholders' equity, provides investors with additional detail on the core earnings generated by our invested equity capital.

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The following table presents a reconciliation of GAAP financial results to non-GAAP core earnings for the periods presented:

|                                                                                           | For the Three Months<br>Ended March 31,          |             |  |
|-------------------------------------------------------------------------------------------|--------------------------------------------------|-------------|--|
|                                                                                           | 2019                                             | 2018        |  |
|                                                                                           | (dollars in thousands, except<br>per share data) |             |  |
| GAAP net income (loss)                                                                    | \$(849,251)                                      | \$1,327,704 |  |
| Net income (loss) attributable to noncontrolling interests                                | (101 )                                           | (96 )       |  |
| Net income (loss) attributable to Annaly                                                  | (849,150 )                                       | 1,327,800   |  |
| Adjustments to exclude reported realized and unrealized (gains) losses                    |                                                  |             |  |
| Realized (gains) losses on termination or maturity of interest rate swaps                 | 588,256                                          | (834 )      |  |
| Unrealized (gains) losses on interest rate swaps                                          | 390,556                                          | (977,285 )  |  |
| Net (gains) losses on disposal of investments                                             | 93,916                                           | (13,468 )   |  |
| Net (gains) losses on other derivatives                                                   | 115,159                                          | 47,145      |  |
| Net unrealized (gains) losses on instruments measured at fair value through earnings      | (47,629 )                                        | 51,593      |  |
| Loan loss provision                                                                       | 5,703                                            | —           |  |
| Adjustments to exclude components of other (income) loss                                  |                                                  |             |  |
| Depreciation and amortization expense related to commercial real estate <sup>(1)</sup>    | 10,114                                           | —           |  |
| Non-core (income) loss allocated to equity method investments <sup>(2)</sup>              | 9,496                                            | —           |  |
| Adjustments to exclude components of general and administrative expenses and income taxes |                                                  |             |  |
| Transaction expenses and non-recurring items <sup>(3)</sup>                               | 9,982                                            | 1,519       |  |
| Income tax effect of non-core income (loss) items                                         | 726                                              | —           |  |
| Adjustments to add back components of realized and unrealized (gains) losses              |                                                  |             |  |
| TBA dollar roll income and CMBX coupon income <sup>(4)</sup>                              | 38,134                                           | 88,353      |  |
| MSR amortization <sup>(5)</sup>                                                           | (13,979 )                                        | (21,156 )   |  |
| Core earnings <sup>(6)</sup>                                                              | 351,284                                          | 503,667     |  |
| Less                                                                                      |                                                  |             |  |
| Premium amortization adjustment cost (benefit)                                            | 81,871                                           | (118,395 )  |  |
| Core earnings (excluding PAA) <sup>(6)</sup>                                              | \$433,155                                        | \$385,272   |  |
| Dividends on preferred stock                                                              | 32,494                                           | 33,766      |  |
| Core earnings attributable to common stockholders <sup>(6)</sup>                          | \$318,790                                        | \$469,901   |  |
| Core earnings attributable to common stockholders (excluding PAA) <sup>(6)</sup>          | \$400,661                                        | \$351,506   |  |
| GAAP net income (loss) per average common share                                           | \$(0.63 )                                        | \$1.12      |  |
| Core earnings per average common share <sup>(6)</sup>                                     | \$0.23                                           | \$0.41      |  |
| Core earnings (excluding PAA) per average common share <sup>(6)</sup>                     | \$0.29                                           | \$0.30      |  |
| GAAP return (loss) on average equity                                                      | (22.72 %)                                        | 36.86 %     |  |
| Core return on average equity (excluding PAA) <sup>(6)</sup>                              | 11.59 %                                          | 10.70 %     |  |

<sup>(1)</sup> Includes depreciation and amortization expense related to equity method investments.

Beginning with the quarter ended September 30, 2018, we exclude non-core (income) loss allocated to equity

<sup>(2)</sup> method investments, which represents unrealized (gains) losses allocated to equity interests in a portfolio of MSR and a realized gain on sale within an unconsolidated joint venture, which are components of Other income (loss).

<sup>(3)</sup> Represents costs incurred in connection with securitizations of residential whole loans. The quarter ended March 31, 2019 also includes costs incurred in connection with the securitization of commercial loans.

<sup>(4)</sup> TBA dollar roll income and CMBX coupon income each represent a component of Net gains (losses) on other derivatives. CMBX coupon income totaled \$1.1 million for the three months ended March 31, 2019.

There were no adjustments for CMBX coupon income prior to September 30, 2018.

<sup>(5)</sup>

MSR amortization represents the portion of changes in fair value that is attributable to the realization of estimated cash flows on the Company's MSR portfolio and is reported as a component of Net unrealized gains (losses) on instruments measured at fair value.

<sup>(6)</sup> Represents a non-GAAP financial measure.

From time to time, we enter into TBA forward contracts as an alternate means of investing in and financing Agency mortgage-backed securities. A TBA contract is an agreement to purchase or sell, for future delivery, an Agency mortgage-backed security with a specified issuer, term and coupon. A TBA dollar roll represents a transaction where TBA contracts with the same terms but different settlement dates are simultaneously bought and sold. The TBA contract settling in the later month typically prices at a discount to the earlier month contract with the difference in price commonly referred to as the "drop". The drop is a reflection of the expected net interest income from an investment in similar Agency mortgage-backed securities, net of an implied financing cost, that would be foregone as a result of settling the contract in the later month rather than in the earlier month. The drop between the current settlement month price and the forward settlement month price occurs because in the TBA dollar roll market, the party providing the financing is the party that would retain all principal and interest payments accrued during the financing period.

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Accordingly, TBA dollar roll income generally represents the economic equivalent of the net interest income earned on the underlying Agency mortgage-backed security less an implied financing cost.

TBA dollar roll transactions are accounted for under GAAP as a series of derivatives transactions. The fair value of TBA derivatives is based on methods similar to those used to value Agency mortgage-backed securities. We record TBA derivatives at fair value on our Consolidated Statements of Financial Condition and recognize periodic changes in fair value as Net gains (losses) on other derivatives in our Consolidated Statements of Comprehensive Income (Loss), which includes both unrealized and realized gains and losses on derivatives (excluding interest rate swaps). TBA dollar roll income is calculated as the difference in price between two TBA contracts with the same terms but different settlement dates multiplied by the notional amount of the TBA contract. Although accounted for as derivatives, TBA dollar rolls capture the economic equivalent of net interest income, or carry, on the underlying Agency mortgage-backed security (interest income less an implied cost of financing). TBA dollar roll income is reported as a component of Net gains (losses) on other derivatives in the Consolidated Statements of Comprehensive Income (Loss).

The CMBX index is a synthetic tradable index referencing a basket of 25 commercial mortgage-backed securities of a particular rating and vintage. The CMBX index allows investors to take a long position (referred to as selling protection) or short position (referred to as purchasing protection) on the respective basket of commercial mortgage-backed securities and is structured as a "pay-as-you-go" contract whereby the protection seller receives and the protection buyer pays a standardized running coupon on the contracted notional amount. Additionally, the protection seller is obligated to pay to the protection buyer the amount of principal losses and/or coupon shortfalls on the underlying commercial mortgage-backed securities as they occur. We report income (expense) on CMBX positions in Net gains (losses) on other derivatives in the Consolidated Statements of Comprehensive Income (Loss). The coupon payments received or paid on CMBX positions is equivalent to interest income (expense) and therefore included in core earnings.

#### Premium Amortization Expense

In accordance with GAAP, we amortize or accrete premiums or discounts into interest income for our Agency mortgage-backed securities, excluding interest-only securities, taking into account estimates of future principal prepayments in the calculation of the effective yield. We recalculate the effective yield as differences between anticipated and actual prepayments occur. Using third-party model and market information to project future cash flows and expected remaining lives of securities, the effective interest rate determined for each security is applied as if it had been in place from the date of the security's acquisition. The amortized cost of the security is then adjusted to the amount that would have existed had the new effective yield been applied since the acquisition date. The adjustment to amortized cost is offset with a charge or credit to interest income. Changes in interest rates and other market factors will impact prepayment speed projections and the amount of premium amortization recognized in any given period. Our GAAP metrics include the unadjusted impact of amortization and accretion associated with this method. Certain of our non-GAAP metrics exclude the effect of the PAA, which quantifies the component of premium amortization representing the cumulative impact on prior periods, but not the current period, of quarter-over-quarter changes in estimated long-term Constant Prepayment Rate ("CPR").

The following table illustrates the impact of the PAA on premium amortization expense for our Residential Securities portfolio for the periods presented:

|                              | For the Three<br>Months Ended<br>March 31,<br>2019      2018<br>(dollars in<br>thousands) |            |
|------------------------------|-------------------------------------------------------------------------------------------|------------|
| Premium amortization expense | \$247,446                                                                                 | \$95,832   |
| Less: PAA cost (benefit)     | 81,871                                                                                    | (118,395 ) |

|                                              |               |            |
|----------------------------------------------|---------------|------------|
| Premium amortization expense (excluding PAA) | \$ 165,575    | \$ 214,227 |
|                                              | For the Three |            |
|                                              | Months        |            |
|                                              | Ended March   |            |
|                                              | 31,           |            |
|                                              | 2019          | 2018       |
|                                              | (per average  |            |
|                                              | common        |            |
|                                              | share)        |            |
| Premium amortization expense                 | \$0.18        | \$0.08     |
| Less: PAA cost (benefit)                     | 0.06          | (0.11 )    |
| Premium amortization expense (excluding PAA) | \$0.12        | \$0.19     |

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Interest income (excluding PAA), economic interest expense and economic net interest income (excluding PAA) Interest income (excluding PAA) represents interest income excluding the effect of the premium amortization adjustment, and serves as the basis for deriving average yield on Interest Earning Assets (excluding PAA), net interest spread (excluding PAA) and net interest margin (excluding PAA), which are discussed below. We believe this measure provides management and investors with additional detail to enhance their understanding of our operating results and trends by excluding the component of premium amortization expense representing the cumulative effect of quarter-over-quarter changes in estimated long-term prepayment speeds related to our Agency mortgage-backed securities (other than interest-only securities), which can obscure underlying trends in the performance of the portfolio.

Economic interest expense is comprised of GAAP interest expense and the net interest component of interest rate swaps. We use interest rate swaps to manage our exposure to changing interest rates on repurchase agreements by economically hedging cash flows associated with these borrowings. Accordingly, adding the net interest component of interest rate swaps to interest expense, as computed in accordance with GAAP, reflects the total contractual interest expense and thus, provides investors with additional information about the cost of our financing strategy.

Similarly, economic net interest income (excluding PAA), as computed below, provides investors with additional information to enhance their understanding of the net economics of our primary business operations.

The following tables provide GAAP measures of interest expense and net interest income and details with respect to reconciling the aforementioned line items on a non-GAAP basis for each respective period:

## Interest Income (excluding PAA)

|                                                   | GAAP<br>Interest<br>Income | PAA Cost<br>(Benefit) | Interest<br>Income<br>(excluding<br>PAA) |
|---------------------------------------------------|----------------------------|-----------------------|------------------------------------------|
| For the three months ended (dollars in thousands) |                            |                       |                                          |
| March 31, 2019                                    | \$866,186                  | \$81,871              | \$ 948,057                               |
| March 31, 2018                                    | \$879,487                  | \$(118,395)           | \$ 761,092                               |

## Economic Interest Expense and Economic Net Interest Income (excluding PAA)

|                                                   | GAAP<br>Interest<br>Expense | Add: Net<br>Interest<br>Component<br>of Interest<br>Rate Swaps | Economic<br>Interest<br>Expense | GAAP<br>Net<br>Interest<br>Income | Less: Net<br>Interest<br>Component<br>of Interest<br>Rate Swaps | Economic<br>Net<br>Interest<br>Income | Add: PAA<br>Cost<br>(Benefit) | Economic<br>Net<br>Interest<br>Income<br>(excluding<br>PAA) |
|---------------------------------------------------|-----------------------------|----------------------------------------------------------------|---------------------------------|-----------------------------------|-----------------------------------------------------------------|---------------------------------------|-------------------------------|-------------------------------------------------------------|
| For the three months ended (dollars in thousands) |                             |                                                                |                                 |                                   |                                                                 |                                       |                               |                                                             |
| March 31, 2019                                    | \$647,695                   | \$(134,035 )                                                   | \$ 513,660                      | \$218,491                         | \$(134,035 )                                                    | \$ 352,526                            | \$81,871                      | \$ 434,397                                                  |
| March 31, 2018                                    | \$367,421                   | \$48,160                                                       | \$415,581                       | \$512,066                         | \$48,160                                                        | \$463,906                             | \$(118,395)                   | \$ 345,511                                                  |

## Experienced and Projected Long-Term CPR

Prepayment speeds, as reflected by the CPR and interest rates vary according to the type of investment, conditions in financial markets, competition and other factors, none of which can be predicted with any certainty. In general, as prepayment speeds and expectations of prepayment speeds on our Agency mortgage-backed securities portfolio increase, related purchase premium amortization increases, thereby reducing the yield on such assets. The following table presents the weighted average experienced CPR and weighted average projected long-term CPR on our Agency mortgage-backed securities portfolio as of and for the periods presented.

| Experienced Long-term<br>CPR (1) | CPR (2) |
|----------------------------------|---------|
|----------------------------------|---------|

March 31, 2019 7.3 % 11.6 %

March 31, 2018 8.9 % 9.2 %

(1) For the three months ended March 31, 2019 and 2018, respectively.

(2) At March 31, 2019 and 2018, respectively.

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Average Yield on Interest Earning Assets (excluding PAA), Net Interest Spread (excluding PAA) and Net Interest Margin (excluding PAA)

Net interest spread (excluding PAA), which is the difference between the average yield on interest earning assets (excluding PAA) and the average cost of interest bearing liabilities, and net interest margin (excluding PAA), which is calculated as the sum of interest income (excluding PAA) plus TBA dollar roll income and CMBX coupon income less interest expense and the net interest component of interest rate swaps divided by the sum of average Interest Earning Assets plus average TBA contract and CMBX balances, provide management with additional measures of our profitability that management relies upon in monitoring the performance of the business.

Disclosure of these measures, which are presented below, provides investors with additional detail regarding how management evaluates our performance.

Net Interest Spread (excluding PAA)

|                            | Average<br>Interest<br>Earning<br>Assets <sup>(1)</sup> | Interest<br>Income<br>(excluding<br>PAA) <sup>(2)</sup> | Average<br>Yield on<br>Interest<br>Earning<br>Assets<br>(excluding<br>PAA) <sup>(2)</sup> |  | Average<br>Interest<br>Bearing<br>Liabilities | Economic<br>Interest<br>Expense<br><sup>(2)(3)</sup> |        | Average<br>Cost of<br>Interest<br>Bearing<br>Liabilities<br><sup>(3)</sup> | Economic<br>Net<br>Interest<br>Income<br>(excluding<br>PAA) <sup>(2)</sup> | Net<br>Interest<br>Spread<br>(excluding<br>PAA) <sup>(2)</sup> |  |
|----------------------------|---------------------------------------------------------|---------------------------------------------------------|-------------------------------------------------------------------------------------------|--|-----------------------------------------------|------------------------------------------------------|--------|----------------------------------------------------------------------------|----------------------------------------------------------------------------|----------------------------------------------------------------|--|
| For the three months ended | (dollars in thousands)                                  |                                                         |                                                                                           |  |                                               |                                                      |        |                                                                            |                                                                            |                                                                |  |
| March 31, 2019             | \$109,946,527                                           | \$948,057                                               | 3.45 %                                                                                    |  | \$95,529,819                                  | \$513,660                                            | 2.15 % |                                                                            | 434,397                                                                    | 1.30 %                                                         |  |
| March 31, 2018             | \$101,979,042                                           | \$761,092                                               | 2.99 %                                                                                    |  | \$87,376,452                                  | \$415,581                                            | 1.90 % |                                                                            | 345,511                                                                    | 1.09 %                                                         |  |

<sup>(1)</sup> Does not reflect the unrealized gains/(losses).

<sup>(2)</sup> Represents a non-GAAP financial measure. Refer to the "Non-GAAP Financial Measures" section for additional information.

<sup>(3)</sup> Average cost on interest bearing liabilities represents annualized economic interest expense divided by average interest bearing liabilities. Average interest bearing liabilities reflects the average amortized cost during the period. Economic interest expense is comprised of GAAP interest expense and the net interest component of interest rate swaps.

Net Interest Margin (excluding PAA)

|                            | Interest<br>Income<br>(excluding<br>PAA) <sup>(1)</sup> | TBA<br>Dollar<br>Roll<br>and<br>CMBX<br>Coupon<br>Income<br><sup>(2)</sup> | Interest<br>Expense | Net<br>Interest<br>Component<br>of Interest<br>Rate<br>Swaps | Subtotal  | Average<br>Interest<br>Earnings<br>Assets | Average<br>TBA<br>Contract<br>and<br>CMBX<br>Balances | Subtotal      | Net<br>Interest<br>Margin<br>(excluding<br>PAA) <sup>(1)</sup> |  |
|----------------------------|---------------------------------------------------------|----------------------------------------------------------------------------|---------------------|--------------------------------------------------------------|-----------|-------------------------------------------|-------------------------------------------------------|---------------|----------------------------------------------------------------|--|
| For the three months ended | (dollars in thousands)                                  |                                                                            |                     |                                                              |           |                                           |                                                       |               |                                                                |  |
| March 31, 2019             | \$948,057                                               | 38,134                                                                     | (647,695)           | 134,035                                                      | \$472,531 | \$109,946,527                             | 14,927,490                                            | \$124,874,017 | 1.51 %                                                         |  |
| March 31, 2018             | \$761,092                                               | 88,353                                                                     | (367,421)           | (48,160)                                                     | \$433,864 | \$101,979,042                             | 12,050,341                                            | \$114,029,383 | 1.52 %                                                         |  |

<sup>(1)</sup> Represents a non-GAAP financial measure. Refer to the "Non-GAAP Financial Measures" section for additional information.

- (2) TBA dollar roll income and CMBX coupon income each represent a component of Net gains (losses) on other derivatives. CMBX coupon income totaled \$1.1 million for the three months ended March 31, 2019. There were no adjustments for CMBX coupon income prior to September 30, 2018.

Economic Interest Expense and Average Cost of Interest Bearing Liabilities

Typically, our largest expense is the cost of Interest Bearing Liabilities and the net interest component of interest rate swaps. The table below shows our average Interest Bearing Liabilities and average cost of Interest Bearing Liabilities as compared to average one-month and average six-month LIBOR for the periods presented.

## ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

## Item 2. Management's Discussion and Analysis

## Cost of Funds on Average Interest Bearing Liabilities

|                            | Average<br>Interest<br>Bearing<br>Liabilities | Interest<br>Bearing<br>Liabilities at<br>Period End | Economic<br>Interest<br>Expense<br>(1) | Average<br>Cost of<br>Interest<br>Bearing<br>Liabilities | Average<br>One-<br>Month<br>LIBOR | Average<br>Six-<br>Month<br>LIBOR | Average<br>One-Month<br>LIBOR<br>Relative to<br>Average<br>Six-<br>Month<br>LIBOR | Average<br>Cost<br>of<br>Interest<br>Bearing<br>Liabilities<br>Relative<br>to<br>Average<br>One-<br>Month<br>LIBOR | Average<br>Cost<br>of Interest<br>Bearing<br>Liabilities<br>Relative to<br>Average<br>Six-Month<br>LIBOR |
|----------------------------|-----------------------------------------------|-----------------------------------------------------|----------------------------------------|----------------------------------------------------------|-----------------------------------|-----------------------------------|-----------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|
| For the three months ended |                                               |                                                     |                                        |                                                          |                                   |                                   |                                                                                   |                                                                                                                    |                                                                                                          |
| March 31,<br>2019          | \$95,529,819                                  | \$96,392,559                                        | \$513,660                              | 2.15 %                                                   | 2.50 %                            | 2.75 %                            | (0.25 %)                                                                          | (0.35 %)                                                                                                           | (0.60 %)                                                                                                 |
| March 31,<br>2018          | \$87,376,452                                  | \$84,750,379                                        | \$415,581                              | 1.90 %                                                   | 1.65 %                            | 2.11 %                            | (0.46 %)                                                                          | 0.25 %                                                                                                             | (0.21 %)                                                                                                 |

(1) Economic interest expense is comprised of GAAP interest expense and the net interest component of interest rate swaps.

Economic interest expense increased by \$98.1 million for the three months ended March 31, 2019 compared to the same period in 2018. The change was primarily due to an increase in average Interest Bearing Liabilities and higher rates on repurchase agreements, partially offset by the change in the net interest component of interest rate swaps which was \$134.0 million for the three months ended March 31, 2019 compared to (\$48.2) million for the same period in 2018 due to rising LIBOR.

We do not manage our portfolio to have a pre-designated amount of borrowings at quarter or year end. Our borrowings at period end are a snapshot of our borrowings as of a date, and this number may differ from average borrowings over the period for a number of reasons. The mortgage-backed securities we own pay principal and interest towards the end of each month and the mortgage-backed securities we purchase are typically settled during the beginning of the month. As a result, depending on the amount of mortgage-backed securities we have committed to purchase, we may retain the principal and interest we receive in the prior month, or we may use it to pay down our borrowings. Moreover, we generally use interest rate swaps, swaptions and other derivative instruments to hedge our portfolio, and as we pledge or receive collateral under these agreements, our borrowings on any given day may be increased or decreased. Our average borrowings during a quarter may differ from period end borrowings as we implement our portfolio management strategies and risk management strategies over changing market conditions by increasing or decreasing leverage. Additionally, these numbers may differ during periods when we conduct equity capital raises, as in certain instances we may purchase additional assets and increase leverage in anticipation of an equity capital raise. Since our average borrowings and period end borrowings can be expected to differ, we believe our average borrowings during a period provide a more accurate representation of our exposure to the risks associated with leverage than our period end borrowings.

At March 31, 2019 and December 31, 2018, the majority of our debt represented repurchase agreements and other secured financing arrangements collateralized by a pledge of our Residential Securities, residential mortgage loans, commercial real estate investments and corporate loans. All of our Residential Securities are currently accepted as collateral for these borrowings. However, we limit our borrowings, and thus our potential asset growth, in order to maintain unused borrowing capacity and maintain the liquidity and strength of our balance sheet.

## Realized and Unrealized Gains (Losses)

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Realized and unrealized gains (losses) is comprised of net gains (losses) on interest rate swaps, net gains (losses) on disposal of investments, net gains (losses) on other derivatives and net unrealized gains (losses) on instruments measured at fair value through earnings. These components of realized and unrealized gains (losses) for the three months ended March 31, 2019 and 2018 were as follows:

|                                                                                      | For the Three Months<br>Ended March 31, |           |
|--------------------------------------------------------------------------------------|-----------------------------------------|-----------|
|                                                                                      | 2019                                    | 2018      |
|                                                                                      | (dollars in thousands)                  |           |
| Net gains (losses) on interest rate swaps <sup>(1)</sup>                             | \$(844,777 )                            | \$929,959 |
| Net gains (losses) on disposal of investments                                        | (93,916 )                               | 13,468    |
| Net gains (losses) on other derivatives                                              | (115,159 )                              | (47,145 ) |
| Net unrealized gains (losses) on instruments measured at fair value through earnings | 47,629                                  | (51,593 ) |
| Loan loss provision                                                                  | (5,703 )                                | —         |
| Total                                                                                | \$(1,011,926)                           | \$844,689 |

<sup>(1)</sup> Includes the net interest component of interest rate swaps, realized gains (losses) on termination or maturity of interest rate swaps and unrealized gains (losses) on interest rate swaps.

## ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

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Net gains (losses) on interest rate swaps for the three months ended March 31, 2019 was (\$844.8) million compared to \$930.0 million for the same period in 2018, primarily attributable to unfavorable changes in unrealized gains (losses) on interest rate swaps and realized gains (losses) on termination of interest rate swaps. Net unrealized gains (losses) on interest rate swaps was (\$390.6) million for the three months ended March 31, 2019, reflecting a decline in forward interest rates, compared to \$977.3 million for the same period in 2018, reflecting a rise in forward interest rates.

Realized gains (losses) on termination or maturity of interest rate swaps was (\$588.3) million resulting from interest rate swaps with a notional amount of \$38.2 billion for the three months ended March 31, 2019 compared to \$0.8 million resulting from the termination or maturity of interest rate swaps with a notional amount of \$250.0 million for the same period in 2018.

Net gains (losses) on disposal of investments was (\$93.9) million for the three months ended March 31, 2019 compared to \$13.5 million for the same period in 2018. For the three months ended March 31, 2019, we disposed of Residential Securities with a carrying value of \$10.5 billion for an aggregate net loss of (\$92.5) million. For the same period in 2018, we disposed of Residential Securities with a carrying value of \$463.4 million for an aggregate net gain of \$13.0 million.

Net gains (losses) on other derivatives was (\$115.2) million for the three months ended March 31, 2019 compared to (\$47.1) million for the same period in 2018. Net gains (losses) on futures contracts was (\$289.4) million for the three months ended March 31, 2019 compared to \$166.5 million for the same period in 2018. Net gains (losses) on interest rate swaptions was (\$10.3) million for the three months ended March 31, 2019 compared to \$45.8 million for the same period in 2018. Net gains (losses) on TBA derivatives was \$173.8 million for the three months ended March 31, 2019 compared to (\$260.0) million for the same period in 2018.

Net unrealized gains (losses) on instruments measured at fair value through earnings was \$47.6 million for the three months ended March 31, 2019 compared to (\$51.6) million for the same period in 2018, primarily due to favorable changes in unrealized gains (losses) on Agency interest-only investments, credit risk transfer securities and residential loans, partially offset by unfavorable changes in unrealized gains (losses) on MSRs for the three months ended March 31, 2019 compared to the same period in 2018.

For the three months ended March 31, 2019, a loan loss provision of (\$5.7) million was recorded on a commercial mortgage loan. Refer to the "Loans" Note located within Item 1 for additional information related to this loan loss provision. No provision for loan loss was recorded for the same period in 2018.

## Other Income (Loss)

Other income (loss) includes certain revenues and costs associated with our investments in commercial real estate, including rental income and recoveries, net servicing income on MSRs, operating costs as well as depreciation and amortization expense. We report in Other income (loss) items whose amounts, either individually or in the aggregate, would not, in the opinion of management, be meaningful to readers of the financial statements. Given the nature of certain components of this line item, balances may fluctuate from period to period.

## General and Administrative Expenses

General and administrative ("G&A") expenses consist of compensation and management fee and other expenses. The following table shows our total G&A expenses as compared to average total assets and average equity for the periods presented.

## G&amp;A Expenses and Operating Expense Ratios

|                                                   | Total<br>G&A<br>Expenses<br>(1) | Total G&A<br>Expenses/Average<br>Assets (1) |   | Total G&A<br>Expenses/Average<br>Equity (1) |   |
|---------------------------------------------------|---------------------------------|---------------------------------------------|---|---------------------------------------------|---|
| For the three months ended (dollars in thousands) |                                 |                                             |   |                                             |   |
| March 31, 2019                                    | \$83,737                        | 0.30                                        | % | 2.24                                        | % |

March 31, 2018                      \$62,510   0.25                      %                      1.74                      %

Includes \$10.0 million of transaction costs incurred in connection with securitizations of residential whole loans and commercial loans for the three months ended March 31, 2019 and \$1.5 million in connection with securitizations of  
(1) residential whole loans for the three months ended March 31, 2018. Excluding these transaction costs, G&A expenses as a percentage of average total assets were 0.26% and 0.24% and as a percentage of average equity were 1.97% and 1.69% for three months ended March 31, 2019 and 2018, respectively.

G&A expenses increased \$21.2 million to \$83.7 million for the three months ended March 31, 2019 compared to the same period in 2018. The change was largely attributable to transaction costs in connection with securitizations of residential whole loans and commercial loans and reimbursement payments made to the Manager for certain services in connection with the management and operations of Annaly which commenced during the third quarter of 2018.

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## ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

## Item 2. Management's Discussion and Analysis

## Return on Average Equity

The following table shows the components of our annualized return on average equity for the periods presented.

## Components of Annualized Return on Average Equity

|                            | Economic<br>Net<br>Interest<br>Income/<br>Average<br>Equity <sup>(1)</sup> | Realized and<br>Unrealized<br>Gains and<br>Losses/Average<br>Equity <sup>(2)</sup> | Other Income<br>(Loss)/Average<br>Equity | G&A<br>Expenses/<br>Average<br>Equity | Income<br>Taxes/<br>Average<br>Equity | Return<br>on<br>Average<br>Equity |
|----------------------------|----------------------------------------------------------------------------|------------------------------------------------------------------------------------|------------------------------------------|---------------------------------------|---------------------------------------|-----------------------------------|
| For the three months ended |                                                                            |                                                                                    |                                          |                                       |                                       |                                   |
| March 31, 2019             | 9.43 %                                                                     | (30.66 %)                                                                          | 0.82 %                                   | (2.24 %)                              | (0.07 %)                              | (22.72 %)                         |
| March 31, 2018             | 12.88 %                                                                    | 24.80 %                                                                            | 0.94 %                                   | (1.74 %)                              | (0.02 %)                              | 36.86 %                           |

<sup>(1)</sup> Economic net interest income includes the net interest component of interest rate swaps.

<sup>(2)</sup> Realized and unrealized gains and losses excludes the net interest component of interest rate swaps.

## Unrealized Gains and Losses - Available-for-Sale Investments

With our available-for-sale accounting treatment on our Agency mortgage-backed securities, which represent the largest portion of assets on balance sheet, as well as certain commercial mortgage-backed securities, unrealized fluctuations in market values of assets do not impact our GAAP net income (loss) but rather are reflected on our balance sheet by changing the carrying value of the asset and stockholders' equity under accumulated other comprehensive income (loss). As a result of this fair value accounting treatment, our book value and book value per share are likely to fluctuate far more than if we used amortized cost accounting. As a result, comparisons with companies that use amortized cost accounting for some or all of their balance sheet may not be meaningful. The table below shows cumulative unrealized gains and losses on our available-for-sale investments reflected in the Consolidated Statements of Financial Condition.

|                                               | March 31,<br>2019      | December 31,<br>2018 |
|-----------------------------------------------|------------------------|----------------------|
|                                               | (dollars in thousands) |                      |
| Unrealized gain                               | \$904,477              | \$306,037            |
| Unrealized loss                               | (1,223,853)            | (2,285,902 )         |
| Accumulated other comprehensive income (loss) | \$(319,376)            | \$(1,979,865 )       |

Unrealized changes in the estimated fair value of available-for-sale investments may have a direct effect on our potential earnings and dividends: positive changes will increase our equity base and allow us to increase our borrowing capacity while negative changes tend to reduce borrowing capacity. A very large negative change in the net fair value of our available-for-sale Residential Securities might impair our liquidity position, requiring us to sell assets with the potential result of realized losses upon sale.

The fair value of these securities being less than amortized cost at March 31, 2019 is solely due to market conditions and not the quality of the assets. Substantially all of the Agency mortgage-backed securities are "AAA" rated or carry an implied "AAA" rating. The investments are not considered to be other-than-temporarily impaired because we currently have the ability and intent to hold the investments to maturity or for a period of time sufficient for a forecasted market price recovery up to or beyond the cost of the investments, and it is not more likely than not that we will be required to sell the investments before recovery of the amortized cost bases, which may be maturity. Also, we are guaranteed payment of the principal and interest amounts of the securities by the respective issuing Agency.

## Financial Condition

Total assets were \$119.2 billion and \$105.8 billion at March 31, 2019 and December 31, 2018, respectively. The change was primarily due to increases in Agency mortgage-backed securities of \$12.3 billion, receivable for unsettled

trades of \$1.5 billion and assets transferred or pledged to securitization vehicles of \$0.5 billion, partially offset by a decrease in CRE Debt and Preferred Equity Investments of \$0.6 billion. Our portfolio composition, net equity allocation and debt-to-net equity ratio by asset class were as follows at March 31, 2019:

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## ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

## Item 2. Management's Discussion and Analysis

|                                                | Residential            |                     |            | Non-Agency<br>MBS and<br>Residential<br>Mortgage<br>Loans <sup>(2)</sup> | Commercial                                                      |                       |                                  | Total <sup>(3)</sup> |
|------------------------------------------------|------------------------|---------------------|------------|--------------------------------------------------------------------------|-----------------------------------------------------------------|-----------------------|----------------------------------|----------------------|
|                                                | Agency MBS<br>and MSRs | TBAs <sup>(1)</sup> | CRTs       |                                                                          | CRE Debt &<br>Preferred<br>Equity<br>Investments <sup>(2)</sup> | Investments<br>in CRE | Corporate<br>Debt <sup>(2)</sup> |                      |
| Assets                                         | (dollars in thousands) |                     |            |                                                                          |                                                                 |                       |                                  |                      |
| Fair<br>value/carrying<br>value <sup>(4)</sup> | \$ 103,594,271         | \$ 15,881,019       | \$ 607,945 | \$ 3,853,957                                                             | \$ 3,879,860                                                    | \$ 734,239            | \$ 1,802,607                     | \$ 114,470,000       |
| Debt                                           |                        |                     |            |                                                                          |                                                                 |                       |                                  |                      |
| Repurchase<br>agreements                       | 86,939,320             | 15,526,000          | 340,426    | 797,087                                                                  | 477,337                                                         | —                     | —                                | 88,554,000           |
| Other secured<br>financing                     | 2,568,010              | —                   | —          | 951,312                                                                  | 126,670                                                         | —                     | 498,631                          | 4,144,600            |
| Debt issued by<br>securitization<br>vehicles   | —                      | —                   | —          | 1,048,600                                                                | 2,645,166                                                       | —                     | —                                | 3,693,766            |
| Net forward<br>purchases                       | 3,173,201              | —                   | —          | 15,924                                                                   | —                                                               | —                     | —                                | 3,189,125            |
| Mortgages<br>payable                           | —                      | —                   | —          | —                                                                        | —                                                               | 510,386               | —                                | 510,386              |
| Net equity<br>allocated                        | \$ 10,913,740          | \$ 355,019          | \$ 267,519 | \$ 1,041,034                                                             | \$ 630,687                                                      | \$ 223,853            | \$ 1,303,976                     | \$ 14,380,000        |
| Net equity<br>allocated (%)                    | 76                     | % 2                 | % 2        | % 7                                                                      | % 4                                                             | % 2                   | % 9                              | % 100                |
| Debt/net<br>equity ratio                       | 8.5:1                  | NM                  | 1.3:1      | 2.7:1                                                                    | 5.2:1                                                           | 2.3:1                 | 0.4:1                            | 6.1:1                |

(1) Fair value/carrying value represents implied market value and repurchase agreements represent the notional value.

(2) Includes loans held for sale, net.

(3) Excludes the TBA asset, debt and equity balances.

(4) CRE Debt and Preferred Equity Investments excludes \$118 million of unused proceeds collateral to be deployed through the commercial real estate CLO during the six month, post-close ramp-up period.

(5) Net Equity Allocated, as disclosed in the above table, excludes non-portfolio related activity and may differ from stockholders' equity per the Consolidated Statements of Financial Condition.

(6) Represents the debt/net equity ratio as determined using amounts on the Consolidated Statements of Financial Condition.

NM Not meaningful.

## Residential Securities

Substantially all of our Agency mortgage-backed securities at March 31, 2019 and December 31, 2018 were backed by single-family residential mortgage loans and were secured with a first lien position on the underlying single-family properties. Our mortgage-backed securities were largely Freddie Mac, Fannie Mae or Ginnie Mae pass through certificates or CMOs, which carry an actual or implied "AAA" rating. We carry all of our Agency mortgage-backed securities at fair value on the Consolidated Statements of Financial Condition.

We accrete discount balances as an increase to interest income over the expected life of the related Interest Earning Assets and we amortize premium balances as a decrease to interest income over the expected life of the related Interest Earning Assets. At March 31, 2019 and December 31, 2018 we had on our Consolidated Statements of

Financial Condition a total of \$183.4 million and \$183.2 million, respectively, of unamortized discount (which is the difference between the remaining principal value and current amortized cost of our Residential Securities acquired at a price below principal value) and a total of \$5.4 billion and \$5.3 billion, respectively, of unamortized premium (which is the difference between the remaining principal value and the current amortized cost of our Residential Securities acquired at a price above principal value).

The weighted average experienced prepayment speed on our Agency mortgage-backed securities portfolio for the three months ended March 31, 2019 and 2018 was 7.3% and 8.9%, respectively. The weighted average projected long-term prepayment speed on our Agency mortgage-backed securities portfolio as of March 31, 2019 and 2018 was 11.6% and 9.2%, respectively.

Given our current portfolio composition, if mortgage principal prepayment rates were to increase over the life of our mortgage-backed securities, all other factors being equal, our net interest income would decrease during the life of these mortgage-backed securities as we would be required to amortize our net premium balance into income over a shorter time period. Similarly, if mortgage principal prepayment rates were to decrease over the life of our mortgage-backed securities, all other factors being equal, our net interest income would increase during the life of these mortgage-backed securities as we would amortize our net premium balance over a longer time period.

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The following tables present our Residential Securities that were carried at fair value at March 31, 2019 and December 31, 2018.

|                                             | March 31,<br>2019      | December 31,<br>2018 |
|---------------------------------------------|------------------------|----------------------|
|                                             | Estimated Fair Value   |                      |
|                                             | (dollars in thousands) |                      |
| Agency                                      |                        |                      |
| Fixed-rate pass-through                     | \$95,754,207           | \$83,052,552         |
| Adjustable-rate pass-through                | 4,152,036              | 4,937,984            |
| CMO                                         | 10,948                 | 11,221               |
| Interest-only                               | 832,778                | 873,889              |
| Multifamily                                 | 2,305,046              | 1,838,565            |
| Reverse mortgages                           | 38,511                 | 38,784               |
| Total agency securities                     | \$103,093,526          | \$90,752,995         |
| Residential credit                          |                        |                      |
| CRT                                         | \$607,945              | \$552,097            |
| Alt-A                                       | 198,368                | 182,361              |
| Prime                                       | 310,027                | 343,986              |
| Subprime                                    | 371,285                | 394,621              |
| NPL/RPL                                     | 3,436                  | 3,438                |
| Prime jumbo (>= 2010 vintage)               | 218,822                | 220,658              |
| Prime jumbo (>= 2010 vintage) interest-only | 14,631                 | 16,874               |
| Total residential credit securities         | \$1,724,514            | \$1,714,035          |
| Total residential securities                | \$104,818,040          | \$92,467,030         |

The following table summarizes certain characteristics of our Residential Securities (excluding interest-only mortgage-backed securities) and interest-only mortgage-backed securities at March 31, 2019 and December 31, 2018.

|                                                                     | March 31, 2019         | December 31,<br>2018 |
|---------------------------------------------------------------------|------------------------|----------------------|
|                                                                     | (dollars in thousands) |                      |
| Residential securities <sup>(1)</sup>                               |                        |                      |
| Principal amount                                                    | \$100,082,048          | \$89,579,223         |
| Net premium                                                         | 4,134,408              | 3,925,803            |
| Amortized cost                                                      | 104,216,456            | 93,505,026           |
| Amortized cost / principal amount                                   | 104.13                 | % 104.38             |
| Carrying value                                                      | 103,970,258            | 91,575,882           |
| Carrying value / principal amount                                   | 103.89                 | % 102.23             |
| Weighted average coupon rate                                        | 3.95                   | % 3.90               |
| Weighted average yield                                              | 3.21                   | % 3.17               |
| Adjustable-rate residential securities <sup>(1)</sup>               |                        |                      |
| Principal amount                                                    | \$5,225,322            | \$6,020,096          |
| Weighted average coupon rate                                        | 3.74                   | % 3.47               |
| Weighted average yield                                              | 2.92                   | % 2.87               |
| Weighted average term to next adjustment                            | 15 Months              | 19 Months            |
| Weighted average lifetime cap <sup>(2)</sup>                        | 8.05                   | % 8.04               |
| Principal amount at period end as % of total residential securities | 5.22                   | % 6.72               |
| Fixed-rate residential securities <sup>(1)</sup>                    |                        |                      |
| Principal amount                                                    | \$94,856,726           | \$83,559,127         |
| Weighted average coupon rate                                        | 3.96                   | % 3.93               |
| Weighted average yield                                              | 3.23                   | % 3.19               |
| Principal amount at period end as % of total residential securities | 94.78                  | % 93.28              |

|                                      |             |             |   |
|--------------------------------------|-------------|-------------|---|
| Interest-only residential securities |             |             |   |
| Notional amount                      | \$6,359,403 | \$6,867,093 |   |
| Net premium                          | 1,082,605   | 1,192,675   |   |
| Amortized cost                       | 1,082,605   | 1,192,675   |   |
| Amortized cost / notional amount     | 17.02       | % 17.37     | % |
| Carrying value                       | 847,782     | 891,148     |   |
| Carrying value / notional amount     | 13.33       | % 12.98     | % |
| Weighted average coupon rate         | 3.07        | % 3.10      | % |
| Weighted average yield               | 1.11        | % 1.73      | % |

(1) Excludes interest-only mortgage-backed securities.

(2) Excludes non-Agency mortgage-backed securities and CRT securities as this attribute is not applicable to these asset classes.

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The following tables summarize certain characteristics of our Residential Credit portfolio at March 31, 2019.

| Product                                    | Total       | Payment Structure |             | Investment Characteristics |                    |                   |                       |   |       |   |
|--------------------------------------------|-------------|-------------------|-------------|----------------------------|--------------------|-------------------|-----------------------|---|-------|---|
|                                            |             | Senior            | Subordinate | Coupon                     | Credit Enhancement | 60+ Delinquencies | 3M VPR <sup>(1)</sup> |   |       |   |
| (dollars in thousands)                     |             |                   |             |                            |                    |                   |                       |   |       |   |
| Agency credit risk transfer                | \$580,544   | \$—               | \$580,544   | 5.80%                      | 1.11               | %                 | 0.32                  | % | 5.73  | % |
| Private label credit risk transfer         | 27,401      | —                 | 27,401      | 7.68%                      | 0.28               | %                 | 0.28                  | % | 6.19  | % |
| Alt-A                                      | 198,368     | 103,965           | 94,403      | 4.85%                      | 10.80              | %                 | 8.87                  | % | 8.25  | % |
| Prime                                      | 310,027     | 136,849           | 173,178     | 4.77%                      | 12.21              | %                 | 6.78                  | % | 10.37 | % |
| Subprime                                   | 371,285     | 130,684           | 240,601     | 3.31%                      | 9.77               | %                 | 22.19                 | % | 4.20  | % |
| Non-performing loan securitizations        | 3,436       | —                 | 3,436       | 5.00%                      | 62.09              | %                 | 44.83                 | % | 4.03  | % |
| Prime jumbo (>=2010 vintage)               | 218,822     | 183,962           | 34,860      | 3.97%                      | 14.81              | %                 | 0.08                  | % | 8.38  | % |
| Prime jumbo (>=2010 vintage) interest-only | 14,631      | 14,631            | —           | 0.44%                      | —                  |                   | 0.19                  | % | 6.68  | % |
| Total/weighted average                     | \$1,724,514 | \$570,091         | \$1,154,423 | 4.94%                      | 8.11               | %                 | 7.63                  | % | 10.02 | % |

(1) Represents the 3 month voluntary prepayment rate ("VPR").

|                                            | Bond Coupon |           |           |               | Estimated<br>Fair Value |
|--------------------------------------------|-------------|-----------|-----------|---------------|-------------------------|
| Product                                    | ARM         | Fixed     | Floater   | Interest-Only |                         |
| (dollars in thousands)                     |             |           |           |               |                         |
| Agency credit risk transfer                | \$—         | \$—       | \$580,544 | \$ —          | \$580,544               |
| Private label credit risk transfer         | —           | —         | 27,401    | —             | 27,401                  |
| Alt-A                                      | 63,431      | 111,148   | 23,789    | —             | 198,368                 |
| Prime                                      | 145,232     | 164,795   | —         | —             | 310,027                 |
| Subprime                                   | —           | 41,808    | 329,104   | 373           | 371,285                 |
| Non-performing loan securitizations        | —           | 3,436     | —         | —             | 3,436                   |
| Prime jumbo (>=2010 vintage)               | —           | 218,822   | —         | —             | 218,822                 |
| Prime jumbo (>=2010 vintage) interest-only | —           | —         | —         | 14,631        | 14,631                  |
| Total                                      | \$208,663   | \$540,009 | \$960,838 | \$ 15,004     | \$1,724,514             |

## Contractual Obligations

The following table summarizes the effect on our liquidity and cash flows from contractual obligations at March 31, 2019. The table does not include the effect of net interest rate payments on our interest rate swap agreements. The net swap payments will fluctuate based on monthly changes in the receive rate. At March 31, 2019, the interest rate swaps had a net fair value of (\$483.5) million.

|                                                            | Within One Year | One to Three Years | Three to Five Years | More than Five Years | Total        |
|------------------------------------------------------------|-----------------|--------------------|---------------------|----------------------|--------------|
| (dollars in thousands)                                     |                 |                    |                     |                      |              |
| Repurchase agreements                                      | \$88,476,246    | \$77,924           | \$—                 | \$—                  | \$88,554,170 |
| Interest expense on repurchase agreements (1)              | 489,503         | 2,528              | —                   | —                    | 492,031      |
| Other secured financing                                    | 90,000          | 3,555,992          | 498,631             | —                    | 4,144,623    |
| Interest expense on other secured financing (1)            | 134,539         | 129,077            | 17,375              | —                    | 280,991      |
| Debt issued by securitization vehicles (principal)         | —               | 883,500            | 765,564             | 2,029,938            | 3,679,002    |
| Interest expense on debt issued by securitization vehicles | 141,351         | 282,702            | 114,733             | 1,291,090            | 1,829,876    |

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|                                       |              |             |             |             |              |
|---------------------------------------|--------------|-------------|-------------|-------------|--------------|
| Mortgages payable (principal)         | 62,029       | 23,005      | 7,615       | 423,464     | 516,113      |
| Interest expense on mortgages payable | 20,511       | 37,839      | 37,839      | 155,689     | 251,878      |
| Long-term operating lease obligations | 3,686        | 7,781       | 7,723       | 5,792       | 24,982       |
| Total                                 | \$89,417,865 | \$5,000,348 | \$1,449,480 | \$3,905,973 | \$99,773,666 |

(1) Interest expense on repurchase agreements and other secured financing calculated based on rates at March 31, 2019.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

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In the coming periods, we expect to continue to finance our Residential Securities in a manner that is largely consistent with our current operations via repurchase agreements. We may use FHLB Des Moines advances, securitization structures, credit facilities, mortgages payable or other term financing structures to finance certain of our assets. During the three months ended March 31, 2019, we received \$2.3 billion from principal repayments and \$7.8 billion in cash from disposal of Residential Securities. During the three months ended March 31, 2018, we received \$2.7 billion from principal repayments and \$463.2 million in cash from disposal of Residential Securities.

Off-Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partnerships which would have been established for the sole purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

We have limited future funding commitments related to certain of our unconsolidated joint ventures. In addition, the Company has provided customary non-recourse carve-out and environmental guarantees (or underlying indemnities with respect thereto) with respect to mortgage loans held by subsidiaries of these unconsolidated joint ventures. We believe that the likelihood of making any payments under these guarantees is remote, and have not accrued a related liability at March 31, 2019.

Capital Management

Maintaining a strong balance sheet that can support the business even in times of economic stress and market volatility is of critical importance to our business strategy. A strong and robust capital position is essential to executing our investment strategy. Our capital strategy is predicated on a strong capital position, which enables us to execute our investment strategy regardless of the market environment.

Our Internal Capital Adequacy Assessment Program ("ICAAP") framework supports capital measurement, and is integrated within the overall risk governance framework. The ICAAP framework is designed to align capital measurement with our risk appetite.

Our capital policy defines the parameters and principles supporting a comprehensive capital management practice, including processes that effectively identify, measure and monitor risks impacting capital adequacy. Our capital assessment process considers the precision in risk measures as well as the volatility of exposures and the relative activities producing risk. Parameters used in modeling economic capital must align with our risk appetite.

The major risks impacting capital are capital, liquidity and funding risk, investment/market risk, credit risk, counterparty risk, operational risk and compliance, regulatory and legal risk. For further discussion of the risks we are subject to, please see Part I, Item 1A. "Risk Factors" in our most recent Annual Report on Form 10-K.

Capital requirements are based on maintaining levels above approved limits, ensuring the quality of our capital appropriately reflects our asset mix, market and funding structure. As such we use a complement of capital metrics and related threshold levels to measure and analyze our capital from a magnitude and composition perspective. Our policy is to maintain an appropriate amount of available financial resources over the aggregate economic capital requirements.

Available Financial Resources is the actual capital held to protect against the unexpected losses measured in our capital management process and may include:

- Common and preferred equity;
- Other forms of equity-like capital;

Surplus credit reserves over expected losses; and

- Other loss absorption instruments.

In the event we fall short of our internal limits, we will consider appropriate actions which may include asset sales, changes in asset mix, reductions in asset purchases or originations, issuance of capital or other capital enhancing or risk reduction strategies.

## ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

## Item 2. Management's Discussion and Analysis

## Stockholders' Equity

The following table provides a summary of total stockholders' equity at March 31, 2019 and December 31, 2018:

|                                                                             | March 31,<br>2019      | December 31,<br>2018 |
|-----------------------------------------------------------------------------|------------------------|----------------------|
| Stockholders' equity                                                        | (dollars in thousands) |                      |
| 7.625% Series C cumulative redeemable preferred stock                       | 169,466                | 169,466              |
| 7.50% Series D cumulative redeemable preferred stock                        | 445,457                | 445,457              |
| 6.95% Series F fixed-to-floating rate cumulative redeemable preferred stock | 696,910                | 696,910              |
| 6.50% Series G fixed-to-floating rate cumulative redeemable preferred stock | 411,335                | 411,335              |
| 8.125% Series H cumulative redeemable preferred stock                       | 55,000                 | 55,000               |
| Common stock                                                                | 14,481                 | 13,138               |
| Additional paid-in capital                                                  | 20,112,875             | 18,794,331           |
| Accumulated other comprehensive income (loss)                               | (319,376 )             | (1,979,865 )         |
| Accumulated deficit                                                         | (5,809,931 )           | (4,493,660 )         |
| Total stockholders' equity                                                  | \$15,776,217           | \$14,112,112         |

## Capital Stock

The following table provides activity related to our Direct Purchase and Dividend Reinvestment Program for the periods presented:

|                                                                         | Three Months<br>Ended<br>March<br>31,<br>2019 | March<br>31,<br>2018 |
|-------------------------------------------------------------------------|-----------------------------------------------|----------------------|
|                                                                         | (dollars in thousands)                        |                      |
| Shares issued through direct purchase and dividend reinvestment program | 87,000                                        | \$70,000             |
| Amount raised from direct purchase and dividend reinvestment program    | \$892                                         | \$746                |

During the three months ended March 31, 2019, we closed the public offering of an original issuance of 75.0 million shares of common stock for proceeds of \$730.5 million before deducting offering expenses. In connection with the offering, we granted the underwriters a thirty-day option to purchase up to an additional 11.3 million shares of common stock, which the underwriters exercised in full resulting in an additional \$109.6 million in proceeds before deducting offering expenses.

During the three months ended March 31, 2019, we issued 48.0 million shares under the at-the-market sales program, for proceeds of \$489.0 million, net of commissions and fees.

No options were exercised during the three months ended March 31, 2019 and 2018.

## Leverage and Capital

We believe that it is prudent to maintain conservative debt-to-equity and economic leverage ratios as there may be volatility in the mortgage and credit markets. Our capital policy governs our capital and leverage position including setting limits. Based on the guidelines, we generally expect to maintain an economic leverage ratio of less than 10:1. Our actual economic leverage ratio varies from time to time based upon various factors, including our Manager's opinion of the level of risk of our assets and liabilities, our liquidity position, our level of unused borrowing capacity, the availability of credit, over-collateralization levels required by lenders when we pledge assets to secure borrowings and our assessment of domestic and international market conditions.

Our debt-to-equity ratio at March 31, 2019 and December 31, 2018 was 6.1:1 and 6.3:1, respectively. Our economic leverage ratio, which is computed as the sum of Recourse Debt, TBA derivative and CMBX notional outstanding and net forward purchases of investments divided by total equity, at March 31, 2019 and December 31, 2018 was 7.0:1.

Our capital ratio, which represents our ratio of stockholders' equity to total assets (inclusive of total market value of TBA derivatives and exclusive of debt issued by securitization vehicles), was 12.0% and 12.1% at March 31, 2019 and December 31, 2018, respectively.

## ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

### Item 2. Management's Discussion and Analysis

#### Risk Management

We are subject to a variety of risks in the ordinary conduct of our business. The effective management of these risks is of critical importance to the overall success of Annaly. The objective of our risk management framework is to identify, measure and monitor these risks.

Our risk management framework is intended to facilitate a holistic, enterprise wide view of risk. We have built a strong and collaborative risk management culture throughout Annaly focused on awareness which supports appropriate understanding and management of our key risks. Each employee of our Manager is accountable for monitoring and managing risk within their area of responsibility.

#### Risk Appetite

We maintain a firm-wide risk appetite statement which defines the types and levels of risk we are willing to take in order to achieve our business objectives, and reflects our risk management philosophy. We engage in risk activities based on our core expertise that aim to enhance value for our stockholders. Our activities focus on income generation and capital preservation through proactive portfolio management, supported by a conservative liquidity and leverage posture.

The risk appetite statement asserts the following key risk parameters to guide our investment management activities:

| Risk Parameter        | Description                                                                                                                                                                     |
|-----------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Portfolio Composition | We will maintain a portfolio comprised of target assets approved by our Board and in accordance with our capital allocation policy.                                             |
| Leverage              | We generally expect to maintain an economic leverage ratio no greater than 10:1.                                                                                                |
| Liquidity Risk        | We will seek to maintain an unencumbered asset portfolio sufficient to meet our liquidity needs under adverse market conditions.                                                |
| Interest Rate Risk    | We will seek to manage interest rate risk to protect the portfolio from adverse rate movements utilizing derivative instruments targeting both income and capital preservation. |
| Credit Risk           | We will seek to manage credit risk by making investments which conform within our specific investment policy parameters and optimize risk-adjusted returns.                     |
| Capital Preservation  | We will seek to protect our capital base through disciplined risk management practices.                                                                                         |
| Compliance            | We will seek to comply with regulatory requirements needed to maintain our REIT status and our exemption from registration under the Investment Company Act.                    |

#### Governance

Risk management begins with our Board, through the review and oversight of the risk management framework, and executive management, through the ongoing formulation of risk management practices and related execution in managing risk. The Board exercises its oversight of risk management primarily through the Board Risk Committee ("BRC") and Board Audit Committee ("BAC"). The BRC is responsible for oversight of our risk governance structure, risk management and risk assessment guidelines and policies and our risk appetite. The BAC is responsible for oversight of the quality and integrity of our accounting, internal controls and financial reporting practices, including independent auditor selection, evaluation and review, and oversight of the internal audit function.

Risk assessment and risk management are the responsibility of our management. A series of management committees has oversight or decision-making responsibilities for risk management activities. Membership of these committees is reviewed regularly to ensure the appropriate personnel are engaged in the risk management process. Four primary management committees have been established to provide a comprehensive framework for risk management. The management committees responsible for our risk management include the Enterprise Risk Committee ("ERC"), Asset and Liability Committee ("ALCO"), Investment Committee and the Financial Reporting and Disclosure Committee ("FRDC"). Each of these committees reports to our management Operating Committee which is responsible for oversight and management of our operations, including oversight and approval authority over all aspects of our enterprise risk management.

Audit Services is an independent function with reporting lines to the BAC. Audit Services is responsible for performing our internal audit activities, which includes independently assessing and validating key controls within the risk management framework.

In the fourth quarter of 2018, the Company implemented an enhanced corporate compliance function, headed by a newly appointed Chief Compliance Officer, who has reporting lines to the BAC. The corporate compliance group is responsible for the oversight of the Company's regulatory compliance.

## ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

## Item 2. Management's Discussion and Analysis

## Description of Risks

We are subject to a variety of risks due to the business we operate. Risk categories are an important component of a robust enterprise wide risk management framework.

We have identified the following primary categories that we utilize to identify, assess, measure and monitor risk.

| Risk                                  | Description                                                                                                                                                                                                                                                                                                    |
|---------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Capital, Liquidity and Funding Risk   | Risk to earnings, capital or business resulting from our inability to meet our obligations when they come due without incurring unacceptable losses because of inability to liquidate assets or obtain adequate funding.                                                                                       |
| Investment/Market Risk                | Risk to earnings, capital or business resulting in the decline in value of our assets or an increase in the costs of financing caused by changes in market variables, such as interest rates, which affect the values of investment securities and other investment instruments.                               |
| Credit Risk                           | Risk to earnings, capital or business resulting from an obligor's failure to meet the terms of any contract or otherwise failure to perform as agreed. This risk is present in lending and investing activities.                                                                                               |
| Counterparty Risk                     | Risk to earnings, capital or business resulting from a counterparty's failure to meet the terms of any contract or otherwise failure to perform as agreed. This risk is present in funding, hedging and investing activities.                                                                                  |
| Operational Risk                      | Risk to earnings, capital, reputation or business arising from inadequate or failed internal processes or systems (including proprietary and third party models), human factors or external events.                                                                                                            |
| Compliance, Regulatory and Legal Risk | Risk to earnings, capital, reputation or conduct of business arising from violations of, or nonconformance with internal and external applicable rules and regulations, losses resulting from lawsuits or adverse judgments, or from changes in the regulatory environment that may impact our business model. |

## Capital, Liquidity and Funding Risk Management

Our capital, liquidity and funding risk management strategy is designed to ensure the availability of sufficient resources to support our business and meet our financial obligations under both normal and adverse market and business environments. Our capital, liquidity and funding risk management practices consist of the following primary elements:

| Element                       | Description                                                                          |
|-------------------------------|--------------------------------------------------------------------------------------|
| Funding                       | Availability of diverse and stable sources of funds.                                 |
| Excess Liquidity              | Excess liquidity primarily in the form of unencumbered assets and cash.              |
| Maturity Profile              | Diversity and tenor of liabilities and modest use of leverage.                       |
| Stress Testing                | Scenario modeling to measure the resiliency of our liquidity position.               |
| Liquidity Management Policies | Comprehensive policies including monitoring, risk limits and an escalation protocol. |

## Funding

Our primary financing sources are repurchase agreements provided through counterparty arrangements and through Arcola, other secured financing including funding from the Federal Home Loan Bank ("FHLB"), debt issued by securitization vehicles, mortgages, credit facilities, note sales and various forms of equity. We maintain excess liquidity by holding unencumbered liquid assets that could be either used to collateralize additional borrowings or sold.

We seek to conservatively manage our repurchase agreement funding position through a variety of methods including diversity, breadth and depth of counterparties and maintaining a staggered maturity profile.

Additionally, our wholly-owned subsidiary, Arcola, provides direct access to third party funding as a FINRA member broker-dealer. Arcola borrows funds through the General Collateral Finance Repo service offered by the FICC, with FICC acting as the central counterparty. Arcola also borrows funds through direct repurchase agreements.

To reduce our liquidity risk we maintain a ladder approach to our repurchase agreements. At March 31, 2019, the weighted average days to maturity was 72 days.

Our repurchase agreements generally provide that in the event of a margin call we must provide additional securities or cash on the same business day that a margin call is made. Should prepayment speeds on the mortgages underlying our Agency and

## ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

## Item 2. Management's Discussion and Analysis

Residential mortgage-backed securities and/or market interest rates or other factors move suddenly and cause declines in the market value of assets posted as collateral, resulting margin calls may cause an adverse change in our liquidity position.

We maintain access to FHLB funding through our captive insurance subsidiary Truman Insurance Company LLC ("Truman"). We finance eligible Agency, residential credit and commercial investments through the FHLB. A 2016 rule from the FHFA requires captive insurance companies to terminate their FHLB membership, however, given the length of its membership at the time the rule was enacted, Truman was granted a five year sunset provision whereby its membership will expire in February 2021. We believe our business objectives align well with the mission of the FHLB System. While there can be no assurances that such steps will be taken, we believe it would be appropriate for there to be legislative or other action to permit Truman and similar captive insurance subsidiaries to retain their membership status beyond the current sunset period.

We utilize diverse funding sources to finance our commercial investments. Aside from FHLB funding, we may utilize credit facilities, securitization funding and, in the case of investments in commercial real estate, CLO securitization funding, mortgage financing and note sales.

At March 31, 2019, we had total financial assets and cash pledged against existing liabilities of \$99.4 billion. The weighted average haircut was approximately 4% on repurchase agreements. The quality and character of the Residential Securities and commercial real estate investments that we pledge as collateral under the repurchase agreements and interest rate swaps did not materially change at March 31, 2019 compared to the same period in 2018, and our counterparties did not materially alter any requirements, including required haircuts, related to the collateral we pledge under repurchase agreements and interest rate swaps during the three months ended March 31, 2019.

The following table presents our quarterly average and quarter-end repurchase agreement and reverse repurchase agreement balances outstanding for the periods presented:

| Quarter ended      | Repurchase Agreements            |                           | Reverse Repurchase Agreements    |                           |
|--------------------|----------------------------------|---------------------------|----------------------------------|---------------------------|
|                    | Average Daily Amount Outstanding | Ending Amount Outstanding | Average Daily Amount Outstanding | Ending Amount Outstanding |
|                    | (dollars in thousands)           |                           |                                  |                           |
| March 31, 2019     | \$87,781,404                     | \$88,554,170              | \$3,937,769                      | \$ 523,449                |
| December 31, 2018  | 83,984,254                       | 81,115,874                | 2,741,022                        | 650,040                   |
| September 30, 2018 | 79,214,382                       | 79,073,026                | 2,330,519                        | 1,234,704                 |
| June 30, 2018      | 80,582,681                       | 75,760,655                | 2,929,470                        | 259,762                   |
| March 31, 2018     | 80,770,663                       | 78,015,431                | 2,064,862                        | 200,459                   |
| December 31, 2017  | 78,755,896                       | 77,696,343                | 1,295,652                        | —                         |
| September 30, 2017 | 69,314,576                       | 69,430,268                | 994,565                          | —                         |
| June 30, 2017      | 63,191,827                       | 62,497,400                | 474,176                          | —                         |
| March 31, 2017     | 64,961,511                       | 62,719,087                | 1,738,333                        | —                         |

The following table provides information on our repurchase agreements and other secured financing by maturity date at March 31, 2019. The weighted average remaining maturity on our repurchase agreements and other secured financing was 101 days at March 31, 2019:

| March 31, 2019 |                        |                       |            |
|----------------|------------------------|-----------------------|------------|
|                | Principal Balance      | Weighted Average Rate | % of Total |
|                | (dollars in thousands) |                       |            |
| 1 day          | \$19,083,282           | 3.41 %                | 20.6 %     |

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|                              |              |      |   |       |   |
|------------------------------|--------------|------|---|-------|---|
| 2 to 29 days                 | 19,107,841   | 2.64 | % | 20.6  | % |
| 30 to 59 days                | 5,220,636    | 2.68 | % | 5.6   | % |
| 60 to 89 days                | 20,762,400   | 2.69 | % | 22.4  | % |
| 90 to 119 days               | 1,867,443    | 2.70 | % | 2.0   | % |
| Over 120 days <sup>(1)</sup> | 26,657,191   | 2.84 | % | 28.8  | % |
| Total                        | \$92,698,793 | 2.87 | % | 100.0 | % |

(1) Approximately 4% of the total repurchase agreements and other secured financing had a remaining maturity over 1 year.

## ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

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The table below presents our outstanding debt balances and associated weighted average rates and days to maturity at March 31, 2019:

|                                                      | Principal<br>Balance   | Weighted<br>Average Rate<br>As of<br>Period<br>End | For the<br>Quarter | Weighted Average<br>Days to Maturity <sup>(1)</sup> |
|------------------------------------------------------|------------------------|----------------------------------------------------|--------------------|-----------------------------------------------------|
|                                                      | (dollars in thousands) |                                                    |                    |                                                     |
| Repurchase agreements                                | \$88,554,170           | 2.86%                                              | 2.64 %             | 72                                                  |
| Other secured financing <sup>(2)</sup>               | 4,144,623              | 3.21%                                              | 3.26 %             | 724                                                 |
| Securitized debt of consolidated VIEs <sup>(3)</sup> | 3,679,002              | 3.84%                                              | 3.82 %             | 4,801                                               |
| Mortgages payable <sup>(3)</sup>                     | 516,113                | 4.11%                                              | 4.18 %             | 4,646                                               |
| Total indebtedness                                   | \$96,893,908           |                                                    |                    |                                                     |

<sup>(1)</sup> Determined based on estimated weighted-average lives of the underlying debt instruments.

<sup>(2)</sup> Includes advances from the Federal Home Loan Bank of Des Moines of \$3.6 billion and financing under credit facilities.

<sup>(3)</sup> Non-recourse to Annaly.

## Excess Liquidity

Our primary source of liquidity is the availability of unencumbered assets which may be provided as collateral to support additional funding needs. We target minimum thresholds of available, unencumbered assets to maintain excess liquidity. The following table illustrates our asset portfolio available to support potential collateral obligations and funding needs.

Assets are considered encumbered if pledged as collateral against an existing liability, and therefore are no longer available to support additional funding. An asset is considered unencumbered if it has not been pledged or securitized. The following table also provides the carrying amount of our encumbered and unencumbered financial assets at March 31, 2019:

|                                                                       | Encumbered<br>Assets   | Unencumbered<br>Assets | Total          |
|-----------------------------------------------------------------------|------------------------|------------------------|----------------|
|                                                                       | (dollars in thousands) |                        |                |
| Financial assets                                                      |                        |                        |                |
| Cash and cash equivalents                                             | \$ 1,338,507           | \$ 184,098             | \$ 1,522,605   |
| Reverse repurchase agreements <sup>(1)</sup>                          | —                      | 523,449                | 523,449        |
| Investments, at carrying value <sup>(2)</sup>                         |                        |                        |                |
| Agency mortgage-backed securities                                     | 94,303,814             | 5,615,582              | 99,919,396     |
| Credit risk transfer securities                                       | 431,210                | 176,735                | 607,945        |
| Non-agency mortgage-backed securities                                 | 935,773                | 190,834                | 1,126,607      |
| Residential mortgage loans <sup>(3)</sup>                             | 2,450,515              | 286,873                | 2,737,388      |
| MSRs                                                                  | 3,260                  | 497,485                | 500,745        |
| Commercial real estate debt investments <sup>(3)</sup>                | 3,114,394              | 469                    | 3,114,863      |
| Commercial real estate debt and preferred equity, held for investment | 428,219                | 294,743                | 722,962        |
| Corporate debt                                                        | 789,261                | 968,821                | 1,758,082      |
| Loans held for sale, net                                              | 42,035                 | 44,525                 | 86,560         |
| Other assets <sup>(4)</sup>                                           | —                      | 225,872                | 225,872        |
| Total financial assets                                                | \$ 103,836,988         | \$ 9,009,486           | \$ 112,846,474 |

<sup>(1)</sup> The collateral received in connection with reverse repurchase agreements was not sold or repledged as of March 31, 2019.

<sup>(2)</sup>

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The amounts reflected in the table above are on a settlement date basis and may differ from the total positions reported on the Consolidated Statements of Financial Condition.

- (3) Includes assets transferred or pledged to securitization vehicles.  
 (4) Includes interests in certain joint ventures and equity instruments.

We maintain liquid assets in order to satisfy our current and future obligations in normal and stressed operating environments. These are held as the primary means of liquidity risk mitigation. The composition of our liquid assets is also considered and is subject to certain parameters. The composition is monitored for concentration risk and asset type. We believe the assets we consider liquid can be readily converted into cash, through liquidation or by being used as collateral in financing arrangements (including as additional collateral to support existing financial arrangements). Our balance sheet also generates liquidity on an on-going basis through mortgage principal and interest repayments and net earnings held prior to payment of dividends. The following table presents our liquid assets as a percentage of total assets at March 31, 2019:

|                                                                                                       | Carrying Value<br>(1)     |   |
|-------------------------------------------------------------------------------------------------------|---------------------------|---|
| Liquid assets                                                                                         | (dollars in<br>thousands) |   |
| Cash and cash equivalents                                                                             | \$ 1,522,605              |   |
| Reverse repurchase agreements                                                                         | 523,449                   |   |
| Residential securities (2)                                                                            | 101,653,575               |   |
| Residential mortgage loans (3)                                                                        | 1,311,720                 |   |
| Commercial real estate debt investments (4)                                                           | 175,231                   |   |
| Commercial real estate debt and preferred equity, held for investment                                 | 471,019                   |   |
| Corporate debt                                                                                        | 1,187,997                 |   |
| Loans held for sale, net                                                                              | 86,560                    |   |
| Total liquid assets                                                                                   | \$ 106,932,156            |   |
| Percentage of liquid assets to carrying amount of encumbered and unencumbered financial assets (3)(4) | 98.57                     | % |

Carrying value approximates the market value of assets. The assets listed in this table include \$99.4 billion of

- (1) assets that have been pledged as collateral against existing liabilities at March 31, 2019. Please refer to the Encumbered and Unencumbered Assets table for related information.  
 (2) The amounts reflected in the table above are on a settlement date basis and may differ from the total positions reported on the Consolidated Statements of Financial Condition.  
 (3) Excludes securitized residential mortgage loans transferred or pledged to consolidated VIEs carried at fair value of \$1.4 billion.  
 (4) Excludes senior securitized commercial mortgage loans of consolidated VIEs carried at fair value of \$2.9 billion.

### Maturity Profile

We consider the profile of our assets, liabilities and derivatives when managing both liquidity risk as well as investment/market risk employing a measurement of both the maturity gap and interest rate sensitivity gap. We determine the amount of liquid assets that are required to be held by monitoring several liquidity metrics. We utilize several modeling techniques to analyze our current and potential obligations including the expected cash flows from our assets, liabilities and derivatives. The following table illustrates the expected final maturities and cash flows of our assets, liabilities and derivatives. The table is based on a static portfolio and assumes no reinvestment of asset cash flows and no future liabilities are entered into. In assessing the maturity of our assets, liabilities and off balance sheet obligations, we use the stated maturities, or our prepayment expectations for assets and liabilities that exhibit prepayment characteristics. Cash and cash equivalents are included in the 'Less than 3 Months' maturity bucket, as they are typically held for a short period of time.

With respect to each maturity bucket, our maturity gap is considered negative when the amount of maturing liabilities exceeds the amount of maturing assets. A negative gap increases our liquidity risk as we must enter into future liabilities.

Our interest rate sensitivity gap is the difference between Interest Earning Assets and Interest Bearing Liabilities maturing or re-pricing within a given time period. Unlike the calculation of maturity gap, interest rate sensitivity gap includes the effect of our interest rate swaps. A gap is considered positive when the amount of interest-rate sensitive assets exceeds the amount of interest-rate sensitive liabilities. A gap is considered negative when the amount of interest-rate sensitive liabilities exceeds interest-rate sensitive assets. During a period of rising interest rates, a negative gap would tend to adversely affect net interest income, while a positive gap would tend to result in an increase in net interest income. During a period of falling interest rates, a negative gap would tend to result in an increase in net interest income, while a positive gap would tend to affect net interest income adversely. Because different types of assets and liabilities with the same or similar maturities may react differently to changes in overall market rates or conditions, changes in interest rates may affect net interest income positively or negatively even if assets and liabilities were perfectly matched in each maturity category. The amount of assets and liabilities utilized to compute our interest rate sensitivity gap was determined in accordance with the contractual terms of the assets and liabilities, except that adjustable-rate loans and securities are included in the period in which their interest rates are first scheduled to adjust and not in the period in which they mature. The effects of interest rate swaps, whereby we generally pay a fixed rate and receive a floating rate and effectively lock in our financing costs for a longer term, are also reflected in our interest rate sensitivity gap. The interest rate sensitivity of our assets and liabilities in the following table at March 31, 2019 could vary substantially based on actual prepayment experience.

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|                                                                         | Less than 3<br>Months  | 3-12 Months    | More than 1<br>Year to 3<br>Years | 3 Years and<br>Over | Total         |
|-------------------------------------------------------------------------|------------------------|----------------|-----------------------------------|---------------------|---------------|
| Financial assets                                                        | (dollars in thousands) |                |                                   |                     |               |
| Cash and cash equivalents                                               | \$ 1,522,605           | \$—            | \$—                               | \$—                 | \$1,522,605   |
| Reverse repurchase agreements                                           | 523,449                | —              | —                                 | —                   | 523,449       |
| Agency mortgage-backed securities<br>(principal)                        | —                      | —              | 4,536,939                         | 93,805,914          | 98,342,853    |
| Credit risk transfer securities (principal)                             | —                      | —              | —                                 | 593,949             | 593,949       |
| Non-agency mortgage-backed securities<br>(principal)                    | —                      | 13,317         | 95,431                            | 1,036,498           | 1,145,246     |
| Commercial mortgage-backed securities<br>(principal)                    | —                      | —              | —                                 | 180,992             | 180,992       |
| Total securities                                                        | —                      | 13,317         | 4,632,370                         | 95,617,353          | 100,263,040   |
| Residential mortgage loans (principal)                                  | —                      | —              | —                                 | 1,288,710           | 1,288,710     |
| Commercial real estate debt investments<br>(principal)                  | —                      | —              | —                                 | —                   | —             |
| Commercial real estate debt and preferred<br>equity (principal)         | 319,249                | 191,628        | 119,559                           | 104,794             | 735,230       |
| Corporate debt (principal)                                              | —                      | 6,673          | 104,352                           | 1,708,208           | 1,819,233     |
| Total loans                                                             | 319,249                | 198,301        | 223,911                           | 3,101,712           | 3,843,173     |
| Assets transferred or pledged to<br>securitization vehicles (principal) | —                      | —              | —                                 | 4,448,361           | 4,448,361     |
| Total financial assets - maturity                                       | 2,365,303              | 211,618        | 4,856,281                         | 103,167,426         | 110,600,628   |
| Effect of utilizing reset dates <sup>(1)</sup>                          | 6,707,784              | 2,938,842      | (1,738,471)                       | (7,908,155)         | —             |
| Total financial assets - interest rate<br>sensitive                     | \$9,073,087            | \$3,150,460    | \$3,117,810                       | \$95,259,271        | \$110,600,628 |
| Financial liabilities                                                   |                        |                |                                   |                     |               |
| Repurchase agreements                                                   | \$64,174,159           | \$24,302,087   | \$77,924                          | \$—                 | \$88,554,170  |
| Other secured financing                                                 | —                      | 90,000         | 3,555,992                         | 498,631             | 4,144,623     |
| Debt issued by securitization vehicles<br>(principal)                   | —                      | —              | 883,500                           | 2,795,502           | 3,679,002     |
| Total financial liabilities - maturity                                  | 64,174,159             | 24,392,087     | 4,517,416                         | 3,294,133           | 96,377,795    |
| Effect of utilizing reset dates <sup>(1)(2)</sup>                       | (58,721,985)           | 15,974,867     | 10,922,401                        | 31,824,717          | —             |
| Total financial liabilities - interest rate<br>sensitive                | \$5,452,174            | \$40,366,954   | \$15,439,817                      | \$35,118,850        | \$96,377,795  |
| Maturity gap                                                            | \$(61,808,856)         | \$(24,180,469) | \$338,865                         | \$99,873,293        | \$14,222,833  |
| Cumulative maturity gap                                                 | \$(61,808,856)         | \$(85,989,325) | \$(85,650,460)                    | \$14,222,833        |               |
| Interest rate sensitivity gap                                           | \$3,620,913            | \$(37,216,494) | \$(12,322,007)                    | \$60,140,421        | \$14,222,833  |
| Cumulative rate sensitivity gap                                         | \$3,620,913            | \$(33,595,581) | \$(45,917,588)                    | \$14,222,833        |               |

<sup>(1)</sup> Maturity gap utilizes stated maturities, or prepayment expectations for assets that exhibit prepayment characteristics, while interest rate sensitivity gap utilizes reset dates, if applicable.

<sup>(2)</sup> Includes effect of interest rate swaps.

The methodologies we employ for evaluating interest rate risk include an analysis of our interest rate “gap,” measurement of the duration and convexity of our portfolio and sensitivities to interest rates and spreads.

#### Stress Testing

We utilize liquidity stress testing to ensure we have sufficient liquidity under a variety of scenarios and stresses. These stress tests assist with the management of our pool of liquid assets and influence our current and future funding plans. Our stress tests are modeled over both short term and longer time horizons. The stresses applied include market-wide and firm-specific stresses.

#### Liquidity Management Policies

We utilize a comprehensive liquidity policy structure to inform our liquidity risk management practices including monitoring and measurement, along with well-defined key limits. Both quantitative and qualitative targets are utilized to measure the ongoing stability and condition of the liquidity position, and include the level and composition of unencumbered assets, as well as both short-term and long-term sustainability of the funding composition under stress conditions.

We also monitor early warning metrics designed to measure the quality and depth of liquidity sources based upon both company-specific and market conditions. The metrics assist in assessing our liquidity conditions and are integrated into our escalation protocol, with various liquidity ratings influencing management actions with respect to contingency planning and potential related actions.

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## Investment/Market Risk Management

One of the primary risks we are subject to is investment/market risk. Changes in the level of interest rates can affect our net interest income, which is the difference between the income we earn on our Interest Earning Assets and the interest expense incurred from Interest Bearing Liabilities and derivatives. Changes in the level of interest rates and spreads can also affect the value of our securities and potential realization of gains or losses from the sale of these assets. We may utilize a variety of financial instruments, including interest rate swaps, swaptions, options, futures and other hedges, in order to limit the adverse effects of interest rates on our results. In the case of interest rate swaps, we may use market agreed coupon ("MAC") interest rate swaps in which we may receive or make a payment at the time of entering such interest rate swap to compensate for the off-market nature of such interest rate swap. MAC interest rate swaps offer increased liquidity and more efficient portfolio administration through compression which is the process of reducing the number of unique interest rate swap contracts and replacing them with fewer contracts containing market defined terms. Our portfolio and the value of our portfolio, including derivatives, may be adversely affected as a result of changing interest rates and spreads.

We simulate a wide variety of interest rate scenarios in evaluating our risk. Scenarios are run to capture our sensitivity to changes in interest rates, spreads and the shape of the yield curve. We also consider the assumptions affecting our analysis such as those related to prepayments. In addition to predefined interest rate scenarios, we utilize Value-at-Risk measures to estimate potential losses in the portfolio over various time horizons utilizing various confidence levels. The following tables estimate the potential changes in economic net interest income over a twelve month period and the immediate effect on our portfolio market value (inclusive of derivative instruments), should interest rates instantaneously increase or decrease by 25, 50 or 75 basis points, and the effect of portfolio market value if mortgage option-adjusted spreads instantaneously increase or decrease by 5, 15 or 25 basis points (assuming shocks are parallel and instantaneous). All changes to income and portfolio market value are measured as percentage changes from the projected net interest income and portfolio value at the base interest rate scenario. The base interest rate scenario assumes interest rates at March 31, 2019. The net interest income simulations incorporate the interest expense effect of rate resets on liabilities and derivatives as well as the amortization expense and reinvestment of principal based on the prepayments on our securities, which varies based on the level of rates. The results assume no management actions in response to the rate or spread changes. The following table presents estimates at March 31, 2019. Actual results could differ materially from these estimates.

| Change in Interest Rate <sup>(1)</sup> | Projected Percentage Change in Economic Net Interest Income <sup>(2)</sup> | Estimated Percentage Change in Portfolio Value <sup>(3)</sup> | Estimated Change as a % on NAV <sup>(3)(4)</sup> |
|----------------------------------------|----------------------------------------------------------------------------|---------------------------------------------------------------|--------------------------------------------------|
| -75 Basis points                       | (42.2%)                                                                    | (0.1%)                                                        | (0.9%)                                           |
| -50 Basis points                       | (26.9%)                                                                    | —%                                                            | —%                                               |
| -25 Basis points                       | (12.4%)                                                                    | 0.1%                                                          | 0.5%                                             |
| +25 Basis points                       | 10.0%                                                                      | (0.2%)                                                        | (1.3%)                                           |
| +50 Basis points                       | 17.2%                                                                      | (0.5%)                                                        | (3.6%)                                           |
| +75 Basis points                       | 28.2%                                                                      | (0.9%)                                                        | (6.8%)                                           |
| MBS Spread Shock <sup>(1)</sup>        | Estimated Change in Portfolio Market Value                                 | Estimated Change as a % on NAV <sup>(3)(4)</sup>              |                                                  |
| -25 Basis points                       | 1.4%                                                                       | 10.8%                                                         |                                                  |
| -15 Basis points                       | 0.8%                                                                       | 6.5%                                                          |                                                  |
| -5 Basis points                        | 0.3%                                                                       | 2.2%                                                          |                                                  |
| +5 Basis points                        | (0.3%)                                                                     | (2.0%)                                                        |                                                  |
| +15 Basis points                       | (0.8%)                                                                     | (6.2%)                                                        |                                                  |
| +25 Basis points                       | (1.3%)                                                                     | (10.3%)                                                       |                                                  |

<sup>(1)</sup> Interest rate and MBS spread sensitivity are based on results from third party models in conjunction with inputs from our internal investment professionals. Actual results could differ materially from these estimates.

- (2) Scenarios include Residential Securities, commercial real estate investments, corporate debt, repurchase agreements, other secured financing and interest rate swaps. Economic net interest income includes the net interest component of interest rate swaps.
- (3) Scenarios include Residential Securities, residential mortgage loans, MSRs and derivative instruments.
- (4) NAV represents book value of equity.

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## Credit Risk Management

Key risk parameters have been established to specify our credit risk appetite. We will seek to manage credit risk by making investments which conform within the firm's specific investment policy parameters and optimize risk-return attributes.

While we do not expect to encounter credit risk in our Agency mortgage-backed securities, we face credit risk on the non-Agency mortgage-backed securities and CRT securities in our portfolio. In addition, we are also exposed to credit risk on residential mortgage loans, commercial real estate investments and corporate debt. MSR values may also be impacted if overall costs to service the underlying mortgage loans increase due to borrower performance. We are subject to risk of loss if an issuer or borrower fails to perform its contractual obligations. We have established policies and procedures for mitigating credit risk, including establishing and reviewing limits for credit exposure. We will originate or purchase commercial investments that meet our comprehensive underwriting process and credit standards and are approved by the appropriate committee. Once a commercial investment is made, our ongoing surveillance process includes regular reviews, analysis and oversight of investments by our investment personnel and appropriate committee. We review credit and other risks of loss associated with each investment. Our management monitors the overall portfolio risk and determines estimates of provision for loss. Our portfolio composition, based on balance sheet values, at March 31, 2019 and December 31, 2018 was as follows:

|                                           | March 31, 2019 | December 31, 2018 |
|-------------------------------------------|----------------|-------------------|
| Category                                  |                |                   |
| Agency mortgage-backed securities         | 90.1           | % 88.8            |
| Credit risk transfer securities           | 0.5            | % 0.5             |
| Non-agency mortgage-backed securities     | 1.0            | % 1.1             |
| Residential mortgage loans <sup>(1)</sup> | 2.4            | % 2.4             |
| Mortgage servicing rights                 | 0.4            | % 0.5             |
| Commercial real estate <sup>(1) (2)</sup> | 4.0            | % 4.9             |
| Corporate debt                            | 1.6            | % 1.8             |

<sup>(1)</sup> Includes assets transferred or pledged to securitization vehicles.

<sup>(2)</sup> Net of unamortized origination fees.

## Counterparty Risk Management

Our use of repurchase and derivative agreements and trading activities create exposure to counterparty risk relating to potential losses that could be recognized if the counterparties to these agreements fail to perform their obligations under the contracts. In the event of default by a counterparty, we could have difficulty obtaining our assets pledged as collateral. A significant portion of our investments are financed with repurchase agreements by pledging our Residential Securities and certain commercial real estate investments as collateral to the lender. The collateral we pledge generally exceeds the amount of the borrowings under each agreement. If the counterparty to the repurchase agreement defaults on its obligations and we are not able to recover our pledged asset, we are at risk of losing the over-collateralization or haircut. The amount of this exposure is the difference between the amount loaned to us plus interest due to the counterparty and the fair value of the collateral pledged by us to the lender including accrued interest receivable on such collateral.

We also use interest rate swaps and other derivatives to manage interest rate risk. Under these agreements, we pledge securities and cash as collateral or settle variation margin payments as part of a margin arrangement.

If a counterparty were to default on its obligations, we would be exposed to a loss to a derivative counterparty to the extent that the amount of our securities or cash pledged exceeded the unrealized loss on the associated derivative and we were not able to recover the excess collateral. Additionally, we would be exposed to a loss to a derivative counterparty to the extent that our unrealized gains on derivative instruments exceeded the amount of the counterparty's securities or cash pledged to us.

We monitor our exposure to counterparties across several dimensions including by type of arrangement, collateral type, counterparty type, ratings and geography.



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The following table summarizes our exposure to counterparties by geography at March 31, 2019:

| Country                | Number of Counterparties | Repurchase of Agreement Fair Value | Interest Rate Swaps at Fair Value | Exposure <sup>(1)</sup> |
|------------------------|--------------------------|------------------------------------|-----------------------------------|-------------------------|
| (dollars in thousands) |                          |                                    |                                   |                         |
| North America          | 33                       | \$62,717,097                       | \$(179,000)                       | \$2,501,891             |
| Europe                 | 13                       | 20,169,939                         | (304,465 )                        | 2,063,706               |
| Asia (non-Japan)       | 1                        | 648,448                            | —                                 | 34,118                  |
| Japan                  | 4                        | 5,018,686                          | —                                 | 291,787                 |
| Total                  | 51                       | \$88,554,170                       | \$(483,465)                       | \$4,891,502             |

<sup>(1)</sup> Represents the amount of cash and/or securities pledged as collateral to each counterparty less the aggregate of repurchase agreement financing and unrealized loss on swaps for each counterparty.

#### Operational Risk Management

We are subject to operational risk in each of our business and support functions. Operational risk may arise from internal or external sources including human error, fraud, systems issues, process change, vendors, business interruptions and other external events. Model risk considers potential errors with a model's results due to uncertainty in model parameters and inappropriate methodologies used. The result of these risks may include financial loss and reputational damage. We manage operational risk through a variety of tools including policies and procedures that cover topics such as business continuity, personal conduct, cybersecurity and vendor management. Other tools include testing, including disaster recovery testing; systems controls, including access controls; training, including cybersecurity awareness training; and monitoring, which includes the use of key risk indicators. Employee level lines of defense against operational risk include proper segregation of incompatible duties, activity-level internal controls over financial reporting, the empowerment of business units to identify and mitigate operational risk sources, testing by our internal audit staff, and our overall governance framework.

We have established a Cybersecurity Committee to help mitigate cybersecurity risks. The role of the committee is to oversee cyber risk assessments, monitor applicable key risk indicators, review cybersecurity training procedures, oversee the Company's Cybersecurity Incident Response Plan and engage third parties to conduct periodic penetration testing. Our cybersecurity risk assessment includes an evaluation of cyber risk related to sensitive data held by third parties on their systems. The Cybersecurity Committee periodically reports to the ERC, the BRC and the BAC. There is no assurance that these efforts will effectively mitigate cybersecurity risk and mitigation efforts are not an assurance that no cybersecurity incidents will occur. We have purchased cybersecurity insurance, however, there is no assurance that the insurance policy will cover all cybersecurity breaches or that the policy will cover all losses.

#### Compliance, Regulatory and Legal Risk Management

Our business is organized as a REIT, and we seek to continue to meet the requirements for taxation as a REIT. The determination that we are a REIT requires an analysis of various factual matters and circumstances. Accordingly, we closely monitor our REIT status within our risk management program.

The financial services industry is highly regulated and receives significant attention from regulators, which may impact both our company as well as our business strategy. We proactively monitor the potential impact regulation may have both directly and indirectly on us. We maintain a process to actively monitor both actual and potential legal action that may affect us. Our risk management framework is designed to identify, measure and monitor these risks under the oversight of the ERC.

We currently rely on the exemption from registration provided by Section 3(c)(5)(C) of the Investment Company Act, and we seek to continue to meet the requirements for this exemption from registration. The determination that we

qualify for this exemption from registration depends on various factual matters and circumstances. Accordingly, in conjunction with our legal department, we closely monitor our compliance with Section 3(c)(5)(C) within our risk management program. The monitoring of this risk is also under the oversight of the ERC.

As a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the U.S. Commodity Futures Trading Commission (“CFTC”) gained jurisdiction over the regulation of interest rate swaps. The CFTC has asserted that this causes the operators of mortgage real estate investment trusts that use swaps as part of their business model to fall within the statutory definition of Commodity Pool Operator (“CPO”), and, absent relief from the Division of Swap Dealer and Intermediary Oversight or the CFTC, to register as CPOs. On December 7, 2012, as a result of numerous requests for no-action relief from the CPO registration requirement for operators of mortgage real estate investment trusts, the Division of Swap Dealer and Intermediary Oversight of the CFTC issued no-action relief entitled “No-Action Relief from the Commodity Pool Operator Registration Requirement for Commodity Pool Operators of Certain Pooled Investment Vehicles Organized as Mortgage Real Estate Investment

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Trusts" that permits a CPO to receive relief by filing a claim to perfect the use of the relief. A claim submitted by a CPO will be effective upon filing, so long as the claim is materially complete. The conditions that must be met relate to initial margin and premiums requirements, net income derived annually from commodity interest positions that are not qualifying hedging transactions, marketing of interests in the mortgage real estate investment trust to the public, and identification of the entity as a mortgage real estate investment trust in its federal tax filings with the Internal Revenue Service. While we disagree with the CFTC's position that mortgage REITs that use swaps as part of their business model fall within the statutory definition of a CPO, we have submitted a claim for the relief set forth in the no-action relief entitled "No-Action Relief from the Commodity Pool Operator Registration Requirement for Commodity Pool Operators of Certain Pooled Investment Vehicles Organized as Mortgage Real Estate Investment Trusts" and believe we meet the criteria for such relief set forth therein.

Critical Accounting Policies and Estimates

Our critical accounting policies that require us to make significant judgments or estimates are described below. For more information on these critical accounting policies and other significant accounting policies, see "Significant Accounting Policies" in the Notes to the Consolidated Financial Statements.

Valuation of Financial Instruments

Residential Securities

There is an active market for our Agency mortgage-backed securities, CRT securities and non-Agency mortgage-backed securities. Since we primarily invest in securities that can be valued using actively quoted prices for actively traded assets, there is a high degree of observable inputs and less subjectivity in measuring fair value. Internal fair values are determined using quoted prices from the TBA securities market, the Treasury curve and the underlying characteristics of the individual securities, which may include coupon, periodic and life caps, reset dates and the expected life of the security. Prepayment rates are difficult to predict and require estimation and judgment in the valuation of Agency mortgage-backed securities. All internal fair values are compared to external pricing sources and/or dealer quotes to determine reasonableness. Additionally, securities used as collateral for repurchase agreements are priced daily by counterparties to ensure sufficient collateralization, providing additional verification of our internal pricing.

Residential Mortgage Loans

There is an active market for the residential whole loans in which we invest. Since we primarily invest in residential loans that can be valued using actively quoted prices for similar assets, there are observable inputs in measuring fair value. Internal fair values are determined using quoted prices for similar market transactions, the swap curve and the underlying characteristics of the individual loans, which may include loan term, coupon, and reset dates. Prepayment rates are difficult to predict and are a significant estimate requiring judgment in the valuation of residential whole loans. Internal fair values are generally compared to external pricing sources to determine reasonableness.

Commercial Real Estate Investments

The fair value of commercial mortgage-backed securities classified as available-for-sale is determined based upon quoted prices of similar assets in recent market transactions and requires the application of judgment due to differences in the underlying collateral. These securities must also be evaluated for other-than-temporary impairment if the fair value of the security is lower than its amortized cost. Determining whether there is an other-than-temporary impairment may require us to exercise significant judgment and make estimates to determine expected cash flows incorporating assumptions such as changes in interest rates and loss expectations. For commercial real estate loans and preferred equity investments classified as held for investment, we apply significant judgment in evaluating the need for a loss reserve. Estimated net recoverable value of the commercial real estate loans and preferred equity investments and other factors such as the fair value of any collateral, the amount and status of senior debt, the prospects of the borrower and the competitive landscape where the borrower conducts business must be considered in

determining the allowance for loan losses. For commercial real estate loans held for sale, significant judgment may need to be applied in determining the fair value of the loans and whether a valuation allowance is necessary. Factors that may need to be considered to determine the fair value of a loan held for sale include the borrower's credit quality, liquidity and other market factors and the fair value of the underlying collateral.

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Interest Rate Swaps

We use the overnight indexed swap ("OIS") curve as an input to value substantially all of our uncleared interest rate swaps. We believe using the OIS curve, which reflects the interest rate typically paid on cash collateral, enables us to most accurately determine the fair value of uncleared interest rate swaps. Consistent with market practice, we exchange collateral (also called margin) based on the fair values of our interest rate swaps. Through this margining process, we may be able to compare our recorded fair value with the fair value calculated by the counterparty or derivatives clearing organization, providing additional verification of our recorded fair value of the uncleared interest rate swaps. We value our cleared interest rate swaps using the prices provided by the derivatives clearing organization.

Revenue Recognition

Interest income from coupon payments is accrued based on the outstanding principal amounts of the Residential Securities and their contractual terms. Premiums and discounts associated with the purchase of the Residential Securities are amortized or accreted into interest income over the projected lives of the securities using the interest method. We use third-party model and market information to project prepayment speeds. Our prepayment speed projections incorporate underlying loan characteristics (i.e., coupon, term, original loan size, original loan-to-value ratio, etc.) and market data, including interest rate and home price index forecasts and expert judgment. Prepayment speeds vary according to the type of investment, conditions in the financial markets and other factors and cannot be predicted with any certainty. Changes to model assumptions, including interest rates and other market data, as well as periodic revisions to the model will cause changes in the results. Adjustments are made for actual prepayment activity as it relates to calculating the effective yield. Gains or losses on sales of Residential Securities are recorded on trade date based on the specific identification method.

Consolidation of Variable Interest Entities

Determining whether an entity has a controlling financial interest in a VIE requires significant judgment related to assessing the purpose and design of the VIE and determination of the activities that most significantly impact its economic performance. We must also identify explicit and implicit variable interests in the entity and consider our involvement in both the design of the VIE and its ongoing activities. To determine whether consolidation of the VIE is required, we must apply judgment to assess whether we have the power to direct the most significant activities of the VIE and whether we have either the rights to receive benefits or the obligation to absorb losses that could be potentially significant to the VIE.

Use of Estimates

The use of 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 revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

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Glossary of Terms

A

Adjustable-Rate Loan / Security

A loan / security on which interest rates are adjusted at regular intervals according to predetermined criteria. The adjustable interest rate is tied to an objective, published interest rate index.

Agency

Refers to a federally chartered corporation, such as the Federal National Mortgage Association, or the Federal Home Loan Mortgage Corporation, or an agency of the U.S. Government, such as the Government National Mortgage Association.

Agency Mortgage-Backed Securities

Refers to residential mortgage-backed securities that are issued or guaranteed by an Agency.

Amortization

Liquidation of a debt through installment payments. Amortization also refers to the process of systematically reducing a recognized asset or liability (e.g., a purchase premium or discount for a debt security) with an offset to earnings.

Average Life

On a mortgage-backed security, the average time to receipt of each dollar of principal, weighted by the amount of each principal prepayment, based on prepayment assumptions.

B

Basis Point ("BP")

One hundredth of one percent, used in expressing differences in interest rates. One basis point is 0.01% of yield. For example, a bond's yield that changed from 3.00% to 3.50% would be said to have moved 50 basis points.

Benchmark

A bond or an index referencing a basket of bonds whose terms are used for comparison with other bonds of similar maturity. The global financial market typically looks to U.S. Treasury securities as benchmarks.

Beneficial Owner

One who benefits from owning a security, even if the security's title of ownership is in the name of a broker or bank.

B-Note

Subordinate mortgage notes and/or subordinate mortgage loan participations.

B-Piece

The most subordinate commercial mortgage-backed security bond class.

Board

Refers to the board of directors of Annaly.

#### Bond

The written evidence of debt, bearing a stated rate or stated rates of interest, or stating a formula for determining that rate, and maturing on a date certain, on which date and upon presentation a fixed sum of money plus interest (usually represented by interest coupons attached to the bond) is payable to the holder or owner. Bonds are long-term securities with an original maturity of greater than one year.

#### Book Value Per Share

Calculated by summing common stock, additional paid-in capital, accumulated other comprehensive income (loss) and accumulated deficit and dividing that number by the total common shares outstanding.

#### Broker

Generic name for a securities firm engaged in both buying and selling securities on behalf of customers or its own account.

#### C

##### Capital Buffer

Includes unencumbered financial assets which can be either sold or utilized as collateral to meet liquidity needs.

##### Capital Ratio

Calculated as total stockholders' equity divided by total assets inclusive of outstanding market value of TBA positions and exclusive of consolidated VIEs.

##### Carry

The amount an asset earns over its hedging and financing costs. A positive carry happens when the rate on the securities being financed is greater than the rate on the funds borrowed. A negative carry is when the rate on the funds borrowed is greater than the rate on the securities that are being financed.

##### CMBX

The CMBX index is a synthetic tradable index referencing a basket of 25 CMBS of a particular rating and vintage. The CMBX index allows investors to take a long position (referred to as selling protection) or short position (referred to as purchasing protection) on the respective basket of CMBS securities and is structured as a "pay-as-you-go" contract whereby the protection seller receives and the protection buyer pays a standardized running coupon on the contracted notional amount. Additionally, the protection

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Item 2. Management's Discussion and Analysis

seller is obligated to pay to the protection buyer the amount of principal losses and/or coupon shortfalls on the underlying CMBS securities as they occur.

**Collateral**

Securities, cash or property pledged by a borrower or party to a derivative contract to secure payment of a loan or derivative. If the borrower fails to repay the loan or defaults under the derivative contract, the secured party may take ownership of the collateral.

**Collateralized Loan Obligation ("CLO")**

A securitization collateralized by loans and other debt instruments.

**Collateralized Mortgage Obligation ("CMO")**

A multiclass bond backed by a pool of mortgage pass-through securities or mortgage loans.

**Commodity Futures Trading Commission ("CFTC")**

An independent U.S. federal agency established by the Commodity Futures Trading Commission Act of 1974. The CFTC regulates the swaps, commodity futures and options markets. Its goals include the promotion of competitive and efficient futures markets and the protection of investors against manipulation, abusive trade practices and fraud.

**Commercial Mortgage-Backed Security**

Securities collateralized by a pool of mortgages on commercial real estate in which all principal and interest from the mortgages flow to certificate holders in a defined sequence or manner.

**Constant Prepayment Rate ("CPR")**

The percentage of outstanding mortgage loan principal that prepays in one year, based on the annualization of the Single Monthly Mortality, which reflects the outstanding mortgage loan principal that prepays in one month.

**Convertible Securities**

Securities which may be converted into shares of another security under stated terms, often into the issuing company's common stock.

**Convexity**

A measure of the change in a security's duration with respect to changes in interest rates. The more convex a security is, the more its duration will change with interest rate changes.

**Core Earnings and Core Earnings Per Average Common Share**

Core earnings is defined as the sum of (a) economic net interest income, (b) TBA dollar roll income and CMBX coupon income, (c) realized amortization of MSRs, (d) other income (loss) (excluding depreciation and amortization expense on real estate and related intangibles, non-core income allocated to equity method investments and other non-core components of other income (loss)), (e) general and administrative expenses (excluding transaction expenses and

non-recurring items) and (f) income taxes (excluding the income tax effect of non-core income (loss) items), and core earnings (excluding PAA) is defined as core earnings excluding the premium amortization adjustment representing the cumulative impact on prior periods, but not the current period, of quarter-over-quarter changes in estimated long-term prepayment speeds related to our Agency mortgage-backed securities. Core earnings and core earnings (excluding PAA) per average common share is calculated by dividing core earnings or core earnings (excluding PAA) by average basic common shares for the period. As discussed in the section titled "Non-GAAP Financial Measures", these measures

have been updated beginning in the third quarter ended September 30, 2018. Prior period results will not be adjusted to conform to the revised calculation as the impact in each of those periods is not material.

**Corporate Debt**

Non-government debt instruments issued by corporations. Long-term corporate debt can be issued as bonds or loans.

**Counterparty**

One of two entities in a transaction. For example, in the bond market a counterparty can be a state or local government, a broker-dealer or a corporation.

**Coupon**

The interest rate on a bond that is used to compute the amount of interest due on a periodic basis.

**Credit and Counterparty Risk**

Risk to earnings, capital or business, resulting from an obligor's or counterparty's failure to meet the terms of any contract or otherwise failure to perform as agreed. Credit and counterparty risk is present in lending, investing, funding and hedging activities.

**Credit Derivatives**

Derivative instruments that have one or more underlyings related to the credit risk of a specified entity (or group of entities) or an index that exposes the seller to potential loss from specified credit-risk related events. An example is credit derivatives referencing the commercial mortgage-backed securities index.

**Credit Risk Transfer ("CRT") Securities**

Credit Risk Transfer securities are risk sharing transactions issued by Fannie Mae and Freddie Mac and similarly structured transactions arranged by third party market participants. The securities issued in the CRT sector are designed to synthetically transfer mortgage credit risk from Fannie Mae, Freddie Mac and/or third parties to private investors.

**Current Face**

The current remaining monthly principal on a mortgage security. Current face is computed by multiplying the original face value of the security by the current principal balance factor.

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D

Dealer

Person or organization that underwrites, trades and sells securities, e.g., a principal market-maker in securities.

Default Risk

Possibility that a bond issuer will fail to pay principal or interest when due.

Derivative

A financial product that derives its value from the price, price fluctuations and price expectations of an underlying instrument, index or reference pool (e.g. futures contracts, options, interest rate swaps, interest rate swaptions and certain to-be-announced securities).

Discount Price

When the dollar price is below face value, it is said to be selling at a discount.

Duration

The weighted maturity of a fixed-income investment's cash flows, used in the estimation of the price sensitivity of fixed-income securities for a given change in interest rates.

E

Economic Capital

A measure of the risk a firm is subject to. It is the amount of capital a firm needs as a buffer to protect against risk. It is a probabilistic measure of potential future losses at a given confidence level over a given time horizon.

Economic Interest Expense

Non-GAAP financial measure that is comprised of GAAP interest expense and the net interest component of interest rate swaps.

Economic Leverage Ratio (Economic Debt-to-Equity Ratio)

Calculated as the sum of recourse debt, TBA derivative and CMBX notional outstanding and net forward purchases (sales) of investments divided by total equity. Recourse debt consists of repurchase agreements and other secured financing (excluding certain non-recourse credit facilities). Debt issued by securitization vehicles, certain credit facilities (included within other secured financing) and mortgages payable are non-recourse to us and are excluded from this measure.

Economic Net Interest Income

Non-GAAP financial measure that is composed of GAAP net interest income less Economic Interest Expense.

Encumbered Assets

Assets on the company's balance sheet which have been pledged as collateral against a liability.

Eurodollar

A U.S. dollar deposit held in Europe or elsewhere outside the United States.

F

Face Amount

The par value (i.e., principal or maturity value) of a security appearing on the face of the instrument.

Factor

A decimal value reflecting the proportion of the outstanding principal balance of a mortgage security, which changes over time, in relation to its original principal value.

Fannie Mae

Federal National Mortgage Association.

Federal Deposit Insurance Corporation (“FDIC”)

An independent agency created by the U.S. Congress to maintain stability and public confidence in the nation’s financial system by insuring deposits, examining and supervising financial institutions for safety and soundness and consumer protection, and managing receiverships.

Federal Funds Rate

The interest rate charged by banks on overnight loans of their excess reserve funds to other banks.

Federal Home Loan Banks (“FHLB”)

U.S. Government-sponsored banks that provide reliable liquidity to member financial institutions to support housing finance and community investment.

Federal Housing Financing Agency (“FHFA”)

The FHFA is an independent regulatory agency that oversees vital components of the secondary mortgage market including Fannie Mae, Freddie Mac and the Federal Home Loan Banks.

Financial Industry Regulatory Authority, Inc. (“FINRA”)

FINRA is a non-governmental organization tasked with regulating all business dealings conducted between dealers, brokers and all public investors.

Fixed-Rate Mortgage

A mortgage featuring level monthly payments, determined at the outset, which remain constant over the life of the mortgage.

Fixed Income Clearing Corporation (“FICC”)

The FICC is an agency that deals with the confirmation, settlement and delivery of fixed-income assets in the U.S. The agency ensures the systematic and efficient settlement of U.S. Government securities and mortgage-backed security transactions in the market.

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Floating Rate Bond

A bond for which the interest rate is adjusted periodically according to a predetermined formula, usually linked to an index.

Floating Rate CMO

A CMO tranche which pays an adjustable rate of interest tied to a representative interest rate index such as the LIBOR, the Constant Maturity Treasury or the Cost of Funds Index.

Freddie Mac

Federal Home Loan Mortgage Corporation.

Futures Contract

A legally binding agreement to buy or sell a commodity or financial instrument in a designated future month at a price agreed upon at the initiation of the contract by the buyer and seller. Futures contracts are standardized according to the quality, quantity, and delivery time and location for each commodity. A futures contract differs from an option in that an option gives one of the counterparties a right and the other an obligation to buy or sell, while a futures contract represents an obligation of both counterparties, one to deliver and the other to accept delivery. A futures contract is part of a class of financial instruments called derivatives.

G

GAAP

U.S. generally accepted accounting principles.

Ginnie Mae

Government National Mortgage Association.

H

Hedge

An investment made with the intention of minimizing the impact of adverse movements in interest rates or securities prices.

I

In-the-Money

Description for an option that has intrinsic value and can be sold or exercised for a profit; a call option is in-the-money when the strike price (execution price) is below the market price of the underlying security.

Interest Bearing Liabilities

Refers to repurchase agreements, debt issued by securitization vehicles, FHLB Des Moines advances and credit facilities. Average Interest Bearing Liabilities is based on daily balances.

Interest Earning Assets

Refers to Residential Securities, U.S. Treasury securities, reverse repurchase agreements, commercial real estate debt and preferred equity interests, residential mortgage loans and corporate debt. Average Interest Earning Assets is based on daily balances.

#### Interest-Only (IO) Bond

The interest portion of mortgage, Treasury or bond payments, which is separated and sold individually from the principal portion of those same payments.

#### Interest Rate Risk

The risk that an investment's value will change due to a change in the absolute level of interest rates, in the spread between two rates, in the shape of the yield curve or in any other interest rate relationship. As market interest rates rise, the value of current fixed income investment holdings declines. Diversifying, deleveraging and hedging techniques are utilized to mitigate this risk. Interest rate risk is a form of market risk.

#### Interest Rate Swap

A binding agreement between counterparties to exchange periodic interest payments on some predetermined dollar principal, which is called the notional principal amount. For example, one party will pay fixed and receive a variable rate .

#### Interest Rate Swaption

Options on interest rate swaps. The buyer of a swaption has the right to enter into an interest rate swap agreement at some specified date in the future. The swaption agreement will specify whether the buyer of the swaption will be a fixed-rate receiver or a fixed-rate payer.

#### Internal Capital Adequacy Assessment Program ("ICAAP")

The ongoing assessment and measurement of risks, and the amount of capital which is necessary to hold against those risks. The objective is to ensure that a firm is appropriately capitalized relative to the risks in its business.

#### International Swaps and Derivatives Association ("ISDA") Master Agreement

Standardized contract developed by ISDA used as an umbrella under which bilateral derivatives contracts are entered into.

#### Inverse IO Bond

An interest-only bond whose coupon is determined by a formula expressing an inverse relationship to a benchmark rate, such as LIBOR. As the benchmark rate changes, the IO coupon adjusts in the opposite direction. When the benchmark rate is relatively low, the IO pays a relatively high coupon payment, and vice versa.

#### Investment/Market Risk

Risk to earnings, capital or business resulting in the decline in value of our assets caused from changes in market

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variables, such as interest rates, which affect the values of Residential Securities and other investment instruments.

Investment Company Act

Refers to the Investment Company Act of 1940, as amended.

L

Leverage

The use of borrowed money to increase investing power and economic returns.

Leverage Ratio (Debt-to-Equity Ratio)

Calculated as total debt to total stockholders' equity. For purposes of calculating this ratio total debt includes repurchase agreements, other secured financing, debt issued by securitization vehicles and mortgages payable. Certain credit facilities (included within other secured financing), debt issued by securitization vehicles and mortgages payable are non-recourse to us.

LIBOR (London Interbank Offered Rate)

The rate banks charge each other for short-term Eurodollar loans. LIBOR is frequently used as the base for resetting rates on floating-rate securities and the floating-rate legs of interest rate swaps.

Liquidity Risk

Risk to earnings, capital or business arising from our inability to meet our obligations when they come due without incurring unacceptable losses because of inability to liquidate assets or obtain adequate funding.

Long-Term CPR

The Company's projected prepayment speeds for certain Agency mortgage-backed securities using third-party model and market information. The Company's prepayment speed projections incorporate underlying loan characteristics (e.g., coupon, term, original loan size, original loan-to-value ratio, etc.) and market data, including interest rate and home price index forecasts. Changes to model assumptions, including interest rates and other market data, as well as periodic revisions to the model will cause changes in the results.

Long-Term Debt

Debt which matures in more than one year.

M

Market Agreed Coupon ("MAC") Interest Rate Swap

An interest rate swap contract structure with pre-defined, market agreed terms, developed by SIFMA and ISDA with the purpose of promoting liquidity and simplified administration.

Monetary Policy

Action taken by the Federal Open Market Committee of the Federal Reserve System to influence the money supply or interest rates.

Mortgage-Backed Security ("MBS")

A security representing a direct interest in a pool of mortgage loans. The pass-through issuer or servicer collects the payments on the loans in the pool and “passes through” the principal and interest to the security holders on a pro rata basis.

**Mortgage Loan**

A mortgage loan granted by a bank, thrift or other financial institution that is based solely on real estate as security and is not insured or guaranteed by a government agency.

**Mortgage Servicing Rights (“MSRs”)**

Contractual agreements constituting the right to service an existing mortgage where the holder receives the benefits and bears the costs and risks of servicing the mortgage.

**N**

**NAV**

Net asset value.

**Net Interest Income**

Represents interest income earned on our portfolio investments, less interest expense paid for borrowings.

**Net Interest Margin**

Represents the sum of the Company's interest income plus TBA dollar roll income and CMBX coupon income less interest expense and the net interest component of interest rate swaps divided by the sum of average Interest Earning Assets plus average TBA contract and CMBX balances.

**Net Interest Spread**

Calculated by taking the average yield on Interest Earning Assets minus the average cost of Interest Bearing Liabilities, which includes the net interest component of interest rate swaps.

**Non-Performing Loan (“NPL”)**

A loan that is close to defaulting or is in default.

**Notional Amount**

A stated principal amount in a derivative contract on which the contract is based.

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O

Operational Risk

Risk to earnings, capital, reputation or business arising from inadequate or failed internal processes or systems, human factors or external events.

Option Contract

A contract in which the buyer has the right, but not the obligation, to buy or sell an asset at a set price on or before a given date. Buyers of call options bet that a security will be worth more than the price set by the option (the strike price), plus the price they pay for the option itself. Buyers of put options bet that the security's price will drop below the price set by the option. An option is part of a class of financial instruments called derivatives, which means these financial instruments derive their value from the worth of an underlying investment.

Original Face

The face value or original principal amount of a security on its issue date.

Out-of-the-Money

Description for an option that has no intrinsic value and would be worthless if it expired today; for a call option, this situation occurs when the strike price is higher than the market price of the underlying security; for a put option, this situation occurs when the strike price is less than the market price of the underlying security.

Over-The-Counter ("OTC") Market

A securities market that is conducted by dealers throughout the country through negotiation of price rather than through the use of an auction system as represented by a stock exchange.

P

Par

Price equal to the face amount of a security; 100%.

Par Amount

The principal amount of a bond or note due at maturity. Also known as par value.

Pass-Through Security

A securitization structure where a GSE or other entity "passes" the amount collected from the borrowers every month to the investor, after deducting fees and expenses.

Pool

A collection of mortgage loans assembled by an originator or master servicer as the basis for a security. In the case of Ginnie Mae, Fannie Mae, or Freddie Mac mortgage pass-through securities, pools are identified by a number assigned by the issuing agency.

Premium

The amount by which the price of a security exceeds its principal amount. When the dollar price of a bond is above its face value, it is said to be selling at a premium.

Premium Amortization Adjustment (“PAA”)

The cumulative impact on prior periods, but not the current period, of quarter-over-quarter changes in estimated long-term prepayment speeds related to our Agency mortgage-backed securities.

Prepayment

The unscheduled partial or complete payment of the principal amount outstanding on a mortgage loan or other debt before it is due.

Prepayment Risk

The risk that falling interest rates will lead to increased prepayments of mortgage or other loans, forcing the investor to reinvest at lower prevailing rates.

Prime Rate

The indicative interest rate on loans that banks quote to their best commercial customers.

Principal and Interest

The term used to refer to regularly scheduled payments or prepayments of principal and payments of interest on a mortgage or other security.

R

Rate Reset

The adjustment of the interest rate on a floating-rate security according to a prescribed formula.

Real Estate Investment Trust (“REIT”)

A special purpose investment vehicle that provides investors with the ability to participate directly in the ownership or financing of real-estate related assets by pooling their capital to purchase and manage mortgage loans and/or income property.

Recourse Debt

Debt on which the economic borrower is obligated to repay the entire balance regardless of the value of the pledged collateral. By contrast, the economic borrower’s obligation to repay non-recourse debt is limited to the value of the pledged collateral. Recourse debt consists of repurchase agreements and other secured financing (excluding certain non-recourse credit facilities). Securitized debt, certain credit facilities (included within other secured financing) and mortgages payable are non-recourse to us and are excluded from this measure.

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Reinvestment Risk

The risk that interest income or principal repayments will have to be reinvested at lower rates in a declining rate environment.

Re-Performing Loan ("RPL")

A type of loan in which payments were previously delinquent by at least 90 days but have resumed.

Repurchase Agreement

The sale of securities to investors with the agreement to buy them back at a higher price after a specified time period; a form of short-term borrowing. For the party on the other end of the transaction (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement.

Residential Securities

Refers to Agency mortgage-backed securities, CRT securities and non-Agency mortgage-backed securities.

Residual

In securitizations, the residual is the tranche that collects any cash flow from the collateral that remains after obligations to the other tranches have been met.

Return on Average Equity

Calculated by taking earnings divided by average stockholders' equity.

Reverse Repurchase Agreement

Refer to Repurchase Agreement. The buyer of securities effectively provides a collateralized loan to the seller.

Risk Appetite Statement

Defines the types and levels of risk we are willing to take in order to achieve our business objectives, and reflects our risk management philosophy.

S

Secondary Market

Ongoing market for bonds previously offered or sold in the primary market.

Secured Overnight Financing Rate ("SOFR")

Broad measure of the cost of borrowing cash overnight collateralized by Treasury securities and was chosen by the Alternative Reference Rate Committee as the preferred benchmark rate to replace dollar LIBOR in coming years.

Settlement Date

The date securities must be delivered and paid for to complete a transaction.

Short-Term Debt

Generally, debt which matures in one year or less. However, certain securities that mature in up to three years may be considered short-term debt.

#### Spread

When buying or selling a bond through a brokerage firm, investors will be charged a commission or spread, which is the difference between the market price and cost of purchase, and sometimes a service fee. Spreads differ based on several factors including liquidity.

#### T

##### Target Assets

Includes Agency mortgage-backed securities, to-be-announced forward contracts, CRT securities, MSRs, non-Agency mortgage-backed securities, residential mortgage loans, commercial real estate investments, and corporate debt.

##### To-Be-Announced Securities (“TBAs”)

A contract for the purchase or sale of a mortgage-backed security to be delivered at a predetermined price, face amount, issuer, coupon and stated maturity on an agreed-upon future date but does not include a specified pool number and number of pools.

##### TBA Dollar Roll Income

TBA dollar roll income is defined as the difference in price between two TBA contracts with the same terms but different settlement dates. The TBA contract settling in the later month typically prices at a discount to the earlier month contract with the difference in price commonly referred to as the “drop”. TBA dollar roll income represents the equivalent of interest income on the underlying security less an implied cost of financing.

##### Total Return

Investment performance measure over a stated time period which includes coupon interest, interest on interest, and any realized and unrealized gains or losses.

##### Total Return Swap

A derivative instrument where one party makes payments at a predetermined rate (either fixed or variable) while receiving a return on a specific asset (generally an equity index, loan or bond) held by the counterparty.

#### U

##### Unencumbered Assets

Assets on our balance sheet which have not been pledged as collateral against an existing liability.

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U.S. Government-Sponsored Enterprise ("GSE") Obligations

Obligations of Agencies originally established or chartered by the U.S. government to serve public purposes as specified by the U.S. Congress, such as Fannie Mae and Freddie Mac; these obligations are not explicitly guaranteed as to the timely payment of principal and interest by the full faith and credit of the U.S. government.

V

Value-at-Risk ("VaR")

A statistical technique which measures the potential loss in value of an asset or portfolio over a defined period for a given confidence interval.

Variable Interest Entity ("VIE")

An entity in which equity investors (i) do not have the characteristics of a controlling financial interest, and/or (ii) do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties.

Variation Margin

Cash or securities provided by a party to collateralize its obligations under a transaction as a result of a change in value of such transaction since the trade was executed or the last time collateral was provided.

Volatility

A statistical measure of the variance of price or yield over time. Volatility is low if the price does not change very much over a short period of time, and high if there is a greater change.

W

Warehouse Lending

A line of credit extended to a loan originator to fund mortgages extended by the loan originators to property purchasers. The loan typically lasts from the time the mortgage is originated to when the mortgage is sold into the secondary market, whether directly or through a securitization. Warehouse lending can provide liquidity to the loan origination market.

Weighted Average Coupon

The weighted average interest rate of the underlying mortgage loans or pools that serve as collateral for a security, weighted by the size of the principal loan balances.

Weighted Average Life ("WAL")

The assumed weighted average amount of time that will elapse from the date of a security's issuance until each dollar of principal is repaid to the investor. The WAL will change as the security ages and depending on the actual realized rate at which principal, scheduled and unscheduled, is paid on the loans underlying the MBS.

Y

Yield-to-Maturity

The expected rate of return of a bond if it is held to its maturity date; calculated by taking into account the current market price, stated redemption value, coupon payments and time to maturity and assuming all coupons are reinvested at the same rate; equivalent to the internal rate of return.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and qualitative disclosures about market risk are contained within the section titled “Risk Management” of Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

ITEM 4. CONTROLS AND PROCEDURES

Our management, including our Chief Executive Officer (the CEO) and Chief Financial Officer (the CFO), reviewed and evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act) as of the end of the period covered by this report. Based on that review and evaluation, the CEO and CFO have concluded that our current disclosure controls and procedures, as designed, (1) were effective in ensuring that information required to be disclosed by the Company in reports it files or submits under the Securities Exchange Act is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure and (2) were effective in ensuring that information required to be disclosed by the Company in reports it files or submits under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC’s rules and forms.

There have been no changes in our internal controls over financial reporting that occurred during the three months ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we are involved in various claims and legal actions arising in the ordinary course of business. At March 31, 2019, we were not party to any pending material legal proceedings.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed in Item 1A. "Risk Factors" of our most recent annual report on Form 10-K. The materialization of any risks and uncertainties identified in our Special Note Regarding Forward-Looking Statements contained in this report together with those previously disclosed in our most recent annual report on Form 10-K or those that are presently unforeseen could result in significant adverse effects on our financial condition, results of operations and cash flows. See Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Special Note Regarding Forward-Looking Statements" in this quarterly report or our most recent annual report on Form 10-K.

ITEM 6. EXHIBITS

Exhibits:

The exhibits required by this item are set forth on the Exhibit Index attached hereto.

| Exhibit Number               | Exhibit Description                                                                                                                                                                                                                                              |
|------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <u>10.1</u>                  | <u>Amendment No. 1 to Amended and Restated Management Agreement, by and between the Registrant and Annaly Capital Management LLC, dated as of March 27, 2019 (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed March 28, 2019).*</u> |
| <u>31.1</u>                  | <u>Certification of Kevin G. Keyes, Chief Executive Officer and President (Principal Executive Officer) of the Registrant, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>                          |
| <u>31.2</u>                  | <u>Certification of Glenn A. Votek, Chief Financial Officer (Principal Financial Officer) of the Registrant, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>                                        |
| <u>32.1</u>                  | <u>Certification of Kevin G. Keyes, Chief Executive Officer and President (Principal Executive Officer) of the Registrant, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>                          |
| <u>32.2</u>                  | <u>Certification of Glenn A. Votek, Chief Financial Officer (Principal Financial Officer) of the Registrant, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>                                        |
| Exhibit 101.INS XBRL Exhibit | Instance Document †                                                                                                                                                                                                                                              |
| 101.SCH XBRL                 | Taxonomy Extension Schema Document †                                                                                                                                                                                                                             |
|                              | Taxonomy Extension Calculation Linkbase Document †                                                                                                                                                                                                               |

Exhibit  
101.CAL

XBRL

Exhibit

101.DEF Additional Taxonomy Extension Definition Linkbase Document Created†

XBRL

Exhibit

101.LAB Taxonomy Extension Label Linkbase Document †

XBRL

Exhibit

101.PRE Taxonomy Extension Presentation Linkbase Document †

XBRL

\* Management contracts or compensatory plans or arrangements.

† Submitted electronically herewith. Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Financial Condition at March 31, 2019

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(Unaudited) and December 31, 2018 (Derived from the audited Consolidated Statement of Financial Condition at December 31, 2018); (ii) Consolidated Statements of Comprehensive Income (Loss) (Unaudited) for the three months ended March 31, 2019 and 2018; (iii) Consolidated Statements of Stockholders' Equity (Unaudited) for the three months ended March 31, 2019 and 2018; (iv) Consolidated Statements of Cash Flows (Unaudited) for the three months ended March 31, 2019 and 2018; and (v) Notes to Consolidated Financial Statements (Unaudited).

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SIGNATURES

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

ANNALY CAPITAL MANAGEMENT, INC.

Dated: May 2, 2019 By: /s/ Kevin G. Keyes  
Kevin G. Keyes  
Chief Executive Officer, President and Director  
(Principal Executive Officer)

Dated: May 2, 2019 By: /s/ Glenn A. Votek  
Glenn A. Votek  
Chief Financial Officer (Principal Financial Officer)