



ANNALY[®]
Fourth Quarter 2017
Investor Presentation
February 14, 2018

Safe Harbor Notice

This presentation, other written or oral communications, and our public documents to which we refer 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 (“MBS”) 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 real estate business; our ability to grow our residential mortgage 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 mortgage servicing rights; our ability to consummate any contemplated investment opportunities; changes in government regulations and 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 of 1940, as amended. 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 any subsequent Quarterly Reports 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, except as required by law.

Past performance is no guarantee of future results. There is no guarantee that any investment strategy referenced herein will work under all market conditions. Prior to making any investment decision, you should evaluate your ability to invest for the long-term, especially during periods of downturns in the market. You alone assume the responsibility of evaluating the merits and risks associated with any potential investment or investment strategy referenced herein. To the extent that this material contains reference to any past specific investment recommendations or strategies which were or would have been profitable to any person, it should not be assumed that recommendations made in the future will be profitable or will equal the performance of such past investment recommendations or strategies.

Non-GAAP Financial Measures

This presentation includes certain non-GAAP financial measures, including core earnings metrics, which are presented both inclusive and exclusive of the premium amortization adjustment (“PAA”). We believe the non-GAAP financial measures are useful for management, investors, analysts, and other interested parties in evaluating our performance but should not be viewed in isolation and are not a substitute for financial measures computed in accordance with U.S. generally accepted accounting principles (“GAAP”). In addition, we may calculate non-GAAP metrics, which include core earnings, and the PAA, differently than our peers making comparative analysis difficult. Please see the section entitled “Non-GAAP Reconciliations” in the attached Appendix for a reconciliation to the most directly comparable GAAP financial measures.

Overview

Annaly is a Leading Diversified Capital Manager

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Agency	Residential Credit	Commercial Real Estate	Middle Market Lending
<p>The Annaly Agency Group invests in agency MBS collateralized by residential mortgages which are guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae</p>	<p>The Annaly Residential Credit Group invests in non-agency residential mortgage assets within securitized product and whole loan markets</p>	<p>The Annaly Commercial Real Estate Group originates and invests in commercial mortgage loans, securities, and other commercial real estate debt and equity investments</p>	<p>The Annaly Middle Market Lending Group provides financing to private equity backed middle market businesses across the capital structure</p>
Assets⁽¹⁾ Capital⁽²⁾			
\$107.3bn \$11.6bn	\$2.8bn \$1.6bn	\$2.0bn \$1.1bn	\$1.0bn \$0.8bn
Sector Rank⁽³⁾			
#1/6	#6/18	#4/12	#14/42
Strategy			
<i>Countercyclical/Defensive</i>	<i>Cyclical/Growth</i>	<i>Cyclical/Growth</i>	<i>Countercyclical/Defensive</i>
Levered Returns⁽⁴⁾			
9% - 10%	8% - 11%	7% - 10%	9% - 11%

Source: Bloomberg, Company filings. Financial data as of December 31, 2017. Market data as of December 31, 2017.

(1) Agency assets include to be announced ("TBA") purchase contracts (market value) and mortgage servicing rights ("MSRs"). Residential Credit and Annaly Commercial Real Estate ("ACREG") assets include only the economic interest of consolidated variable interest entities ("VIEs").

(2) Dedicated capital includes TBA purchase contracts, excludes non-portfolio related activity and varies from total stockholders' equity.

(3) Sector rank compares Annaly dedicated capital in each of its four investment groups as of December 31, 2017 (adjusted for P/B as of December 31, 2017) to the market capitalization of the companies in each respective comparative sector as of December 31, 2017. Comparative sectors used for Agency, ACREG, and Residential Credit ranking are their respective sector within the Bloomberg Mortgage REIT Index ("BBREMITG") as of December 31, 2017. Comparative sector used for Annaly Middle Market Lending Group ("AMML") ranking is the S&P BDC Index.

(4) Levered return assumptions are for illustrative purposes only and attempt to represent current market asset returns and financing terms for prospective investments of the same, or a substantially similar, nature in each respective group.

Annaly by the Numbers

Outperformance

32%

Annaly's 2017 total return is ~50% better than both S&P 500 and mREIT sector average⁽¹⁾

Dividend Stability

17

Annaly declared its 17th consecutive \$0.30 dividend in Q4 2017

Size & Scale

\$13.8bn

Annaly's market cap is greater than the 24 smallest mREITs combined

Capital Raising

\$2.8bn

Raised \$2.8bn of capital across common and preferred markets over 6 months⁽²⁾

Liquidity

\$9.1bn

Annaly's unencumbered assets at year end represent ~61% of total equity value

Diversification

24%

Annaly has increased its capital dedicated to credit assets from 11% in 2014 to 24% at the end of Q4 2017

Operating Efficiency

16%

Annaly's operating expense to core earnings (excluding PAA) ratio of 16% is significantly lower than the mREIT sector average⁽³⁾

Shareholder Alignment

100%

All of Annaly employee stock purchases since 2014 have been completed in the open market

Portfolio Growth

\$1.0bn

Annaly's middle market lending portfolio surpassed \$1.0bn in assets in Q4 2017

Source: Bloomberg and internal Company data. Note: Market and financial data as of December 31, 2017, unless otherwise noted. "mREIT" refers to BBREMTG Index.

(1) Represents total return for the year ended December 31, 2017.

(2) July common offering size includes the underwriter's full exercise of its overallotment option to purchase additional shares of common stock. October common offering size includes the underwriter's partial exercise of its overallotment option to purchase additional shares of common stock. July preferred offering size includes the underwriter's partial exercise of its overallotment option to purchase additional shares of preferred stock. Subsequent to quarter-end, on January 12, 2018, Annaly closed a public offering of 17mm shares of its 6.50% Series G Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock. Gross proceeds for all offerings are before deducting the underwriting discount and other estimated offering expenses.

(3) Company filings as of September 30, 2017. Core Earnings (excluding PAA) is a non-GAAP financial measure. Annaly and other mREITs generally utilize "Core" or similarly adjusted EPS; see Appendix. Peer Composite is calculated by weighting Annaly's dedicated equity of each business to the corresponding peer average's operating expenses divided by total equity.

Recent Accomplishments and Developments

Annaly has achieved a number of significant strategic and organizational milestones over the past twelve months

Market Leading Capital Raises

<p>ANNALY[®]</p> <p>\$816 Million <i>Common Equity Follow-On</i></p> <p>July 18, 2017</p>	<p>ANNALY[®]</p> <p>\$720 Million <i>6.95% Series F Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock</i></p> <p>July 25, 2017</p>	<p>ANNALY[®]</p> <p>\$857 Million <i>Common Equity Follow-On</i></p> <p>October 6, 2017</p>	<p>ANNALY[®]</p> <p>\$425 Million <i>6.50% Series G Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock</i></p> <p>January 8, 2018</p>
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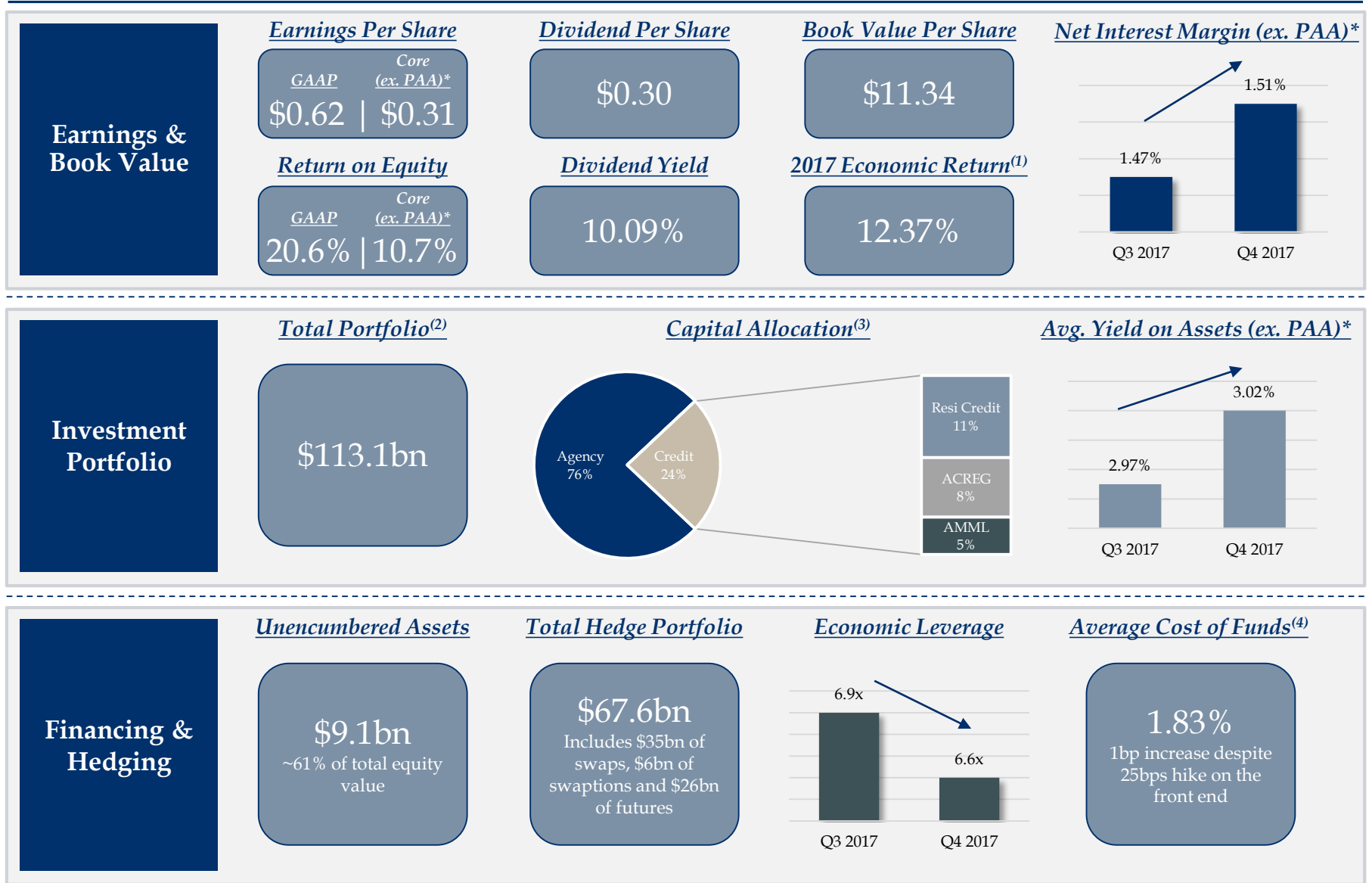
Strategic Partnerships

Agency	Residential Credit	Commercial Real Estate	Middle Market Lending	Environmental, Social and Governance
<p><i>Partnership with</i></p>  <p><i>Joint Venture with a Premier Sovereign Wealth Fund</i></p>	<p><i>Partnerships with Various Well-Known Money Center Banks and Loan Aggregators</i></p>	<p><i>Joint Venture with</i></p> 	<p><i>Partnership with Large, Diversified M&A Advisor and Debt Placement Agent</i></p>	<p><i>Joint Venture with</i></p> 

Source: Bloomberg and internal Company data.

Note: July common offering size includes the underwriter's full exercise of its overallotment option to purchase additional shares of common stock. October common offering size includes the underwriter's partial exercise of its overallotment option to purchase additional shares of common stock. July preferred offering size includes the underwriter's partial exercise of its overallotment option to purchase additional shares of preferred stock. Subsequent to quarter-end, Annaly closed a public offering of 17mm shares of its 6.50% Series G Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock. Gross proceeds for all offerings are before deducting the underwriting discount and other estimated offering expenses.

Fourth Quarter 2017 Financial Highlights



Source: Company filings.

Note: Financial and market data as of December 31, 2017, unless otherwise noted.

* Represents a non-GAAP financial measure; see Appendix.

(1) Economic return is shown for full year 2017 and represents change in book value plus dividends declared over prior period book value.

(2) Agency assets include TBA purchase contracts (market value) and MSRs. Residential Credit and ACREG assets are exclusive of consolidated variable interest entities VIEs.

(3) Dedicated capital will vary from stockholders' equity as it includes TBA purchase contracts and excludes non-portfolio related activity.

(4) Reflects average cost of funds on interest bearing liabilities, inclusive of hedging.

Annaly's Continued Focus on Corporate Responsibility and Governance

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(1) In July 2017, senior management voluntarily committed to increase their stock ownership guidelines over the next 3 years.

(2) As of December 31, 2017.

(3) Represents executive team as of December 31, 2017, which is comprised of Kevin Keyes, Wellington Denahan, Glenn Votek, David Finkelstein, Anthony Green, and Tim Coffey. Includes dividend reinvestments.

(4) Effective January 1, 2018.

(5) As of January 1, 2018.

Investment Highlights

Advantages of Annaly's Shared Capital Model

Annaly's diversification, scale and liquidity coupled with an established investment platform provide a unique opportunity in today's markets

Size & Scale

20x the market capitalization size of the median mREIT⁽¹⁾

Liquidity & Financing

Annaly utilizes a multitude of funding sources and has over **\$9 billion** of unencumbered assets⁽²⁾

Diversification

Current number of available investment options are almost **3x** more than in 2013

Operating Efficiency

65% lower operating expense as a % of assets and **51%** lower operating expense as a % of equity⁽³⁾

Performance

Annaly's 2017 total return is **~50%** better than both S&P 500 and mREIT sector average⁽⁴⁾

Source: Bloomberg, SNL Financial, and Company filings.

(1) BBREMTG Index as of December 31, 2017.

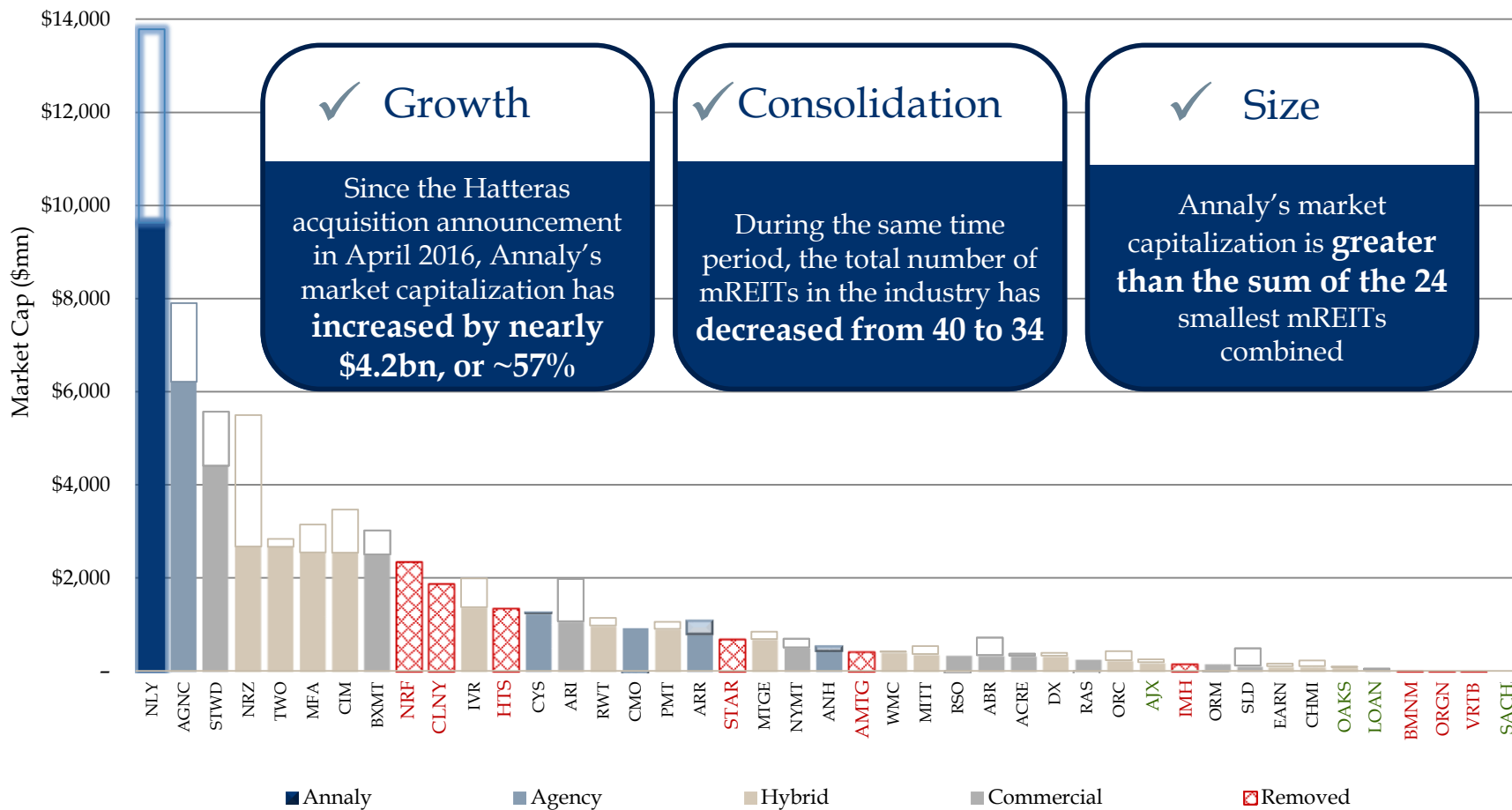
(2) Company filings as of December 31, 2017. "Unencumbered assets" are representative of Annaly's excess liquidity and are defined as assets that have not been pledged or securitized (including cash and cash equivalents, Agency MBS, CRT, Non-Agency MBS, Residential mortgage loans, MSRs, CRE debt investments, CRE debt and preferred equity held for investment and corporate debt).

(3) Represents Annaly's average operating expense as a percentage of average assets and average equity compared to the BBREMTG Index from 2012 to Q3 2017 annualized. Analysis includes companies in BBREMTG Index with market capitalization above \$200mm as of December 31 of each respective year and as of September 30, 2017. Operating expense is defined as: (i) for internally-managed peers, the sum of compensation and benefits, general and administrative expenses ("G&A") and other operating expenses, and (ii) for externally-managed peers, the sum of net management fees, compensation and benefits (if any), G&A and other operating expenses.

(4) Represents total return for the year ended December 31, 2017.

Annaly Advantages | Size & Scale

Since Annaly announced the acquisition of Hatteras Financial Corp. (“Hatteras”) in April 2016, the number of mREITs has fallen by 15% and the industry market capitalization has grown by nearly \$14.4bn



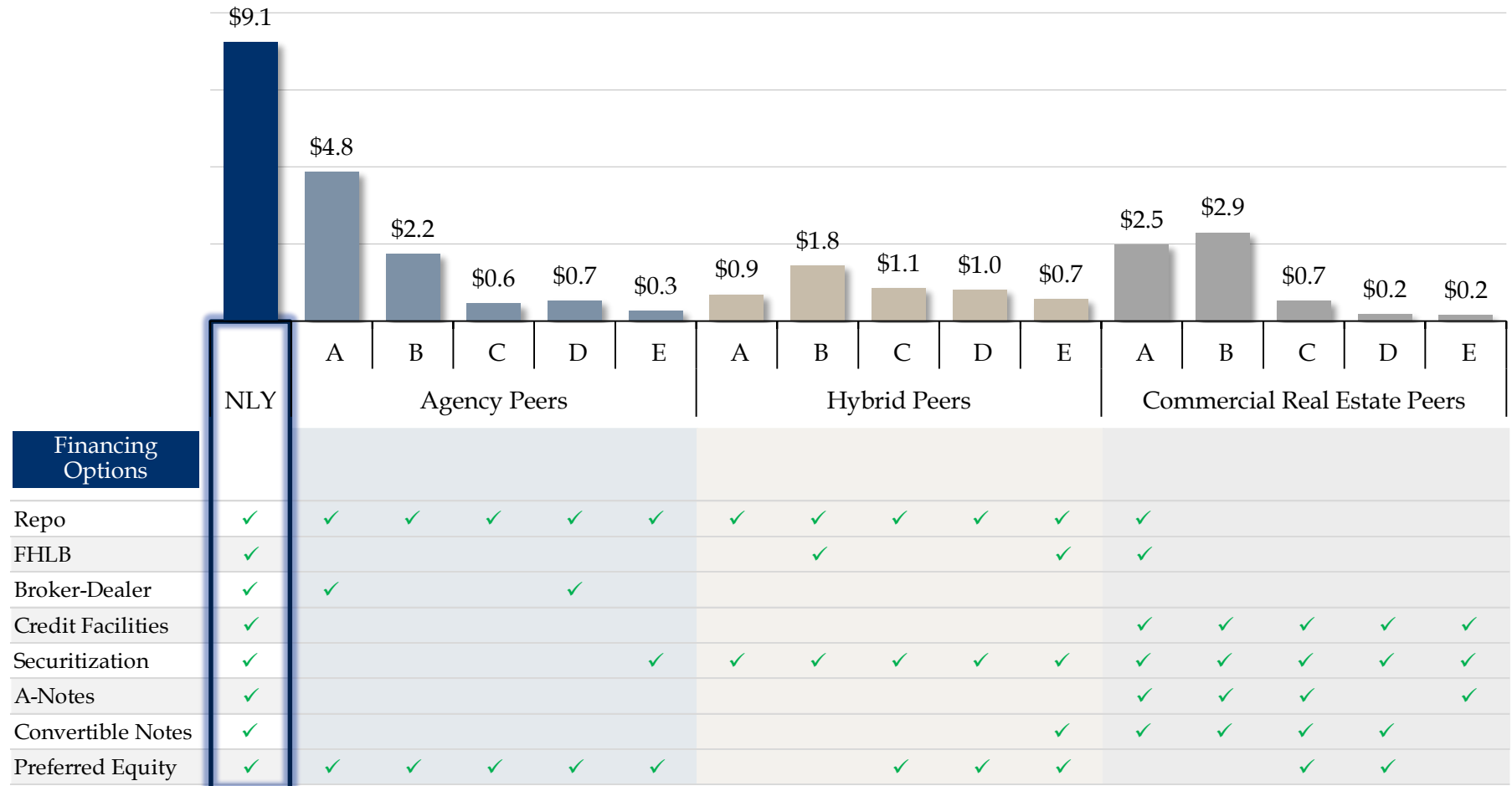
Source: Market data per Bloomberg as of December 31, 2017.

Note: Compares companies in the BBREMTG Index as of December 31, 2017 to the same list of companies as of April 8, 2016 (the last trading day prior to the announcement of the acquisition of Hatteras Financial Corp.). No outline denotes either a reduction in market cap or no change to market cap from April 8, 2016 to December 31, 2017. Removed companies includes companies that have been acquired or those that have been removed from the index. Companies that have been added to the BBREMTG Index from April 8, 2016 to December 31, 2017 include AJX, OAKS, LOAN and SACH and are shown in green.

Annaly Advantages | Liquidity & Unmatched Financing Sources and Capital

Annaly's superior liquidity position and financing flexibility provides it with unique competitive advantages

Unencumbered Assets (\$bn)⁽¹⁾



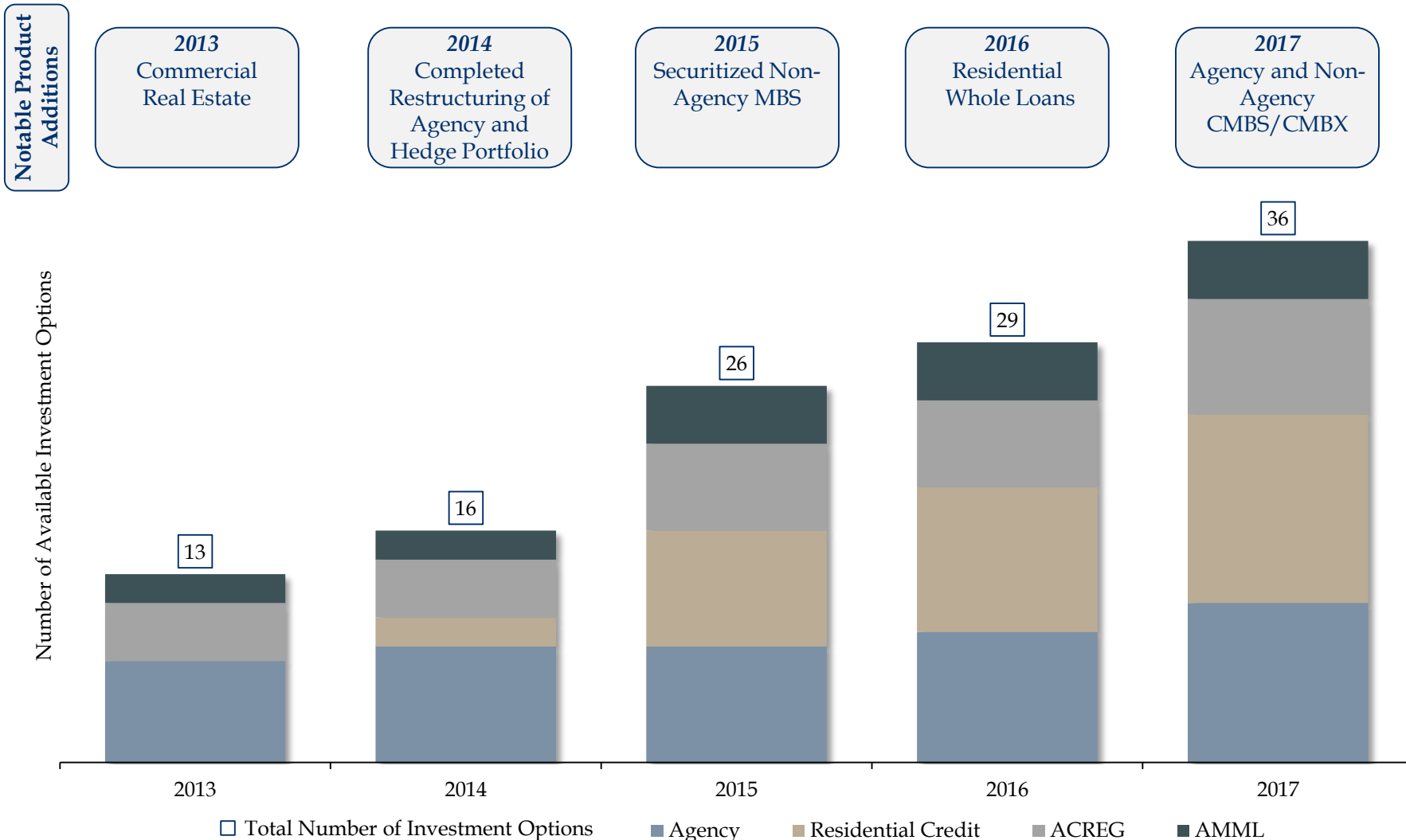
Source: Bloomberg, SNL Financial, and Company filings.

Note: Financial data as of December 31, 2017 or most recent quarter available. Peers include the top 5 largest mREITs by market capitalization in their respective sector within the BBREMTG Index as of December 31, 2017, excluding Annaly. Check mark given to Annaly for each financing alternative that it currently utilizes or has previously utilized

(1) Reflects unencumbered assets as reported or similarly calculated.

Annaly Advantages | Diversification through Internal Growth

Annaly's diversification strategy is now made up of 36 investment options

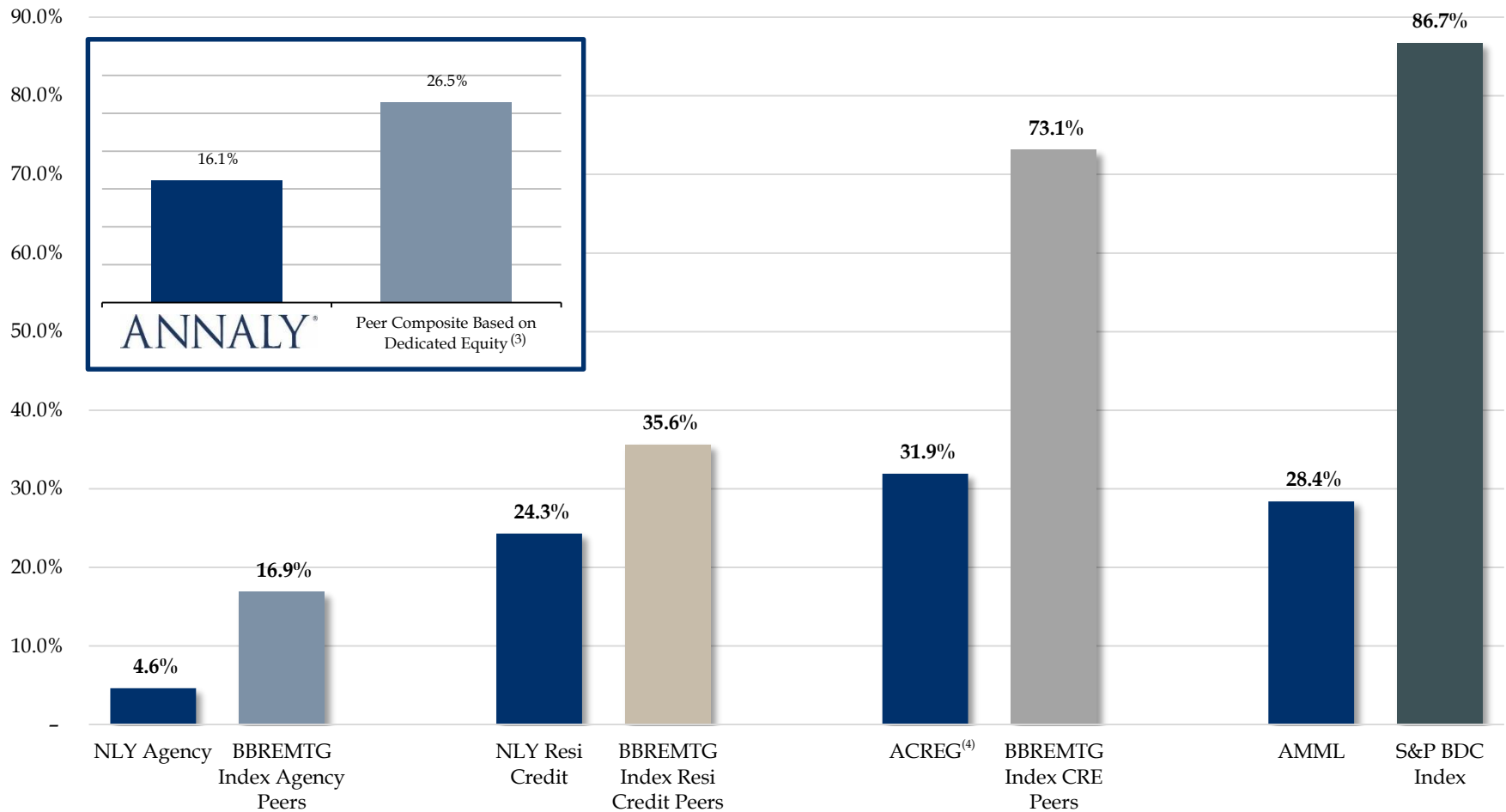


Source: Company filings as of December 31, 2017.

Annaly Advantages | Operating Efficiency

Annaly benefits from its scale and diversification, operating at significantly lower cost levels than smaller, monoline business models

Operating Expenses as a % of Core Earnings (excluding PAA)⁽¹⁾⁽²⁾



Source: Company filings as of September 30, 2017.

(1) General & Administrative expenses for Annaly business lines are based on internal expense sharing methodologies plus additional estimated public entity costs.

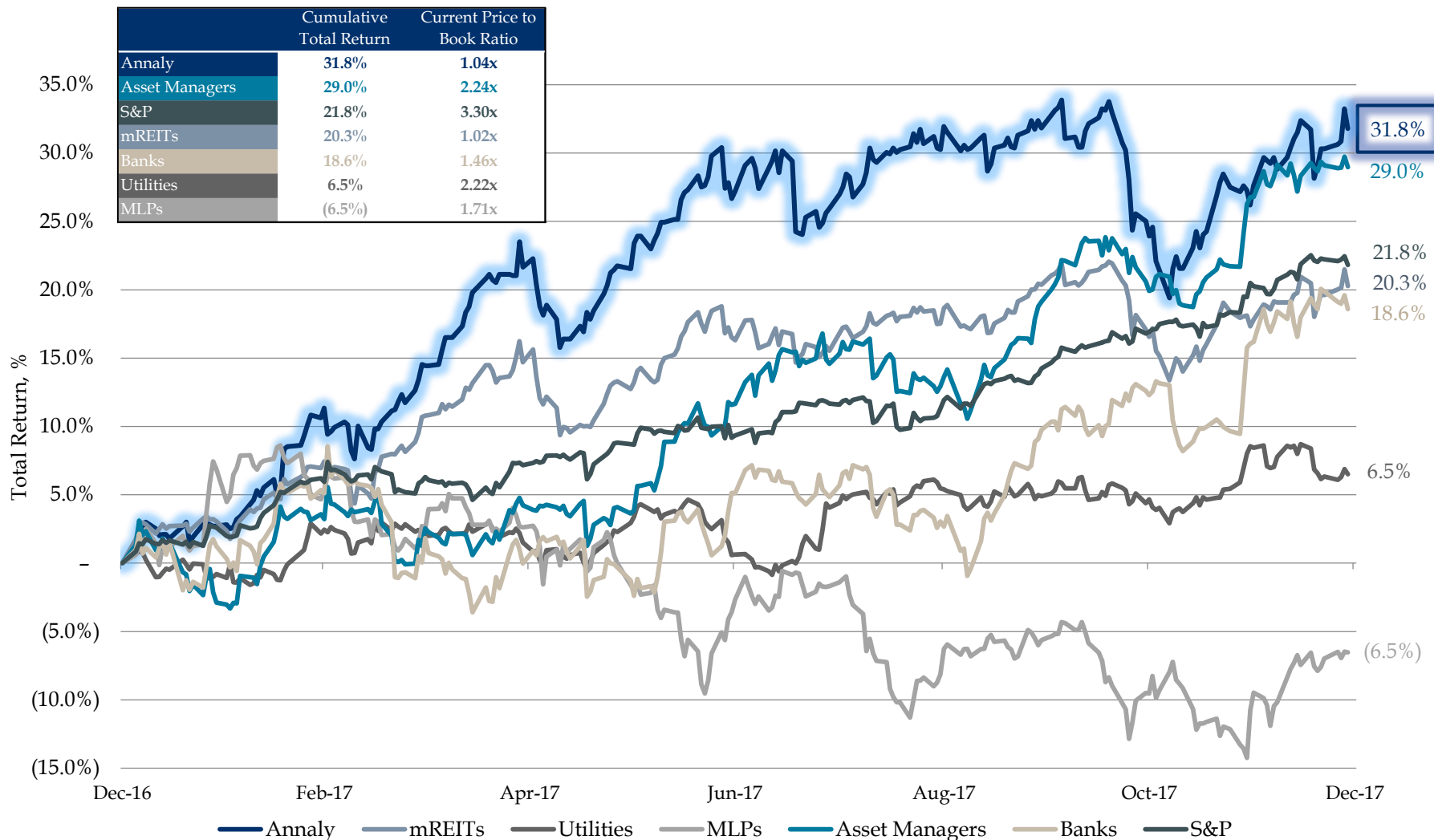
(2) Core Earnings (excluding PAA) is a non-GAAP financial measure. Annaly and other mREITs generally utilize "Core" or similarly adjusted EPS; see Appendix.

(3) Peer Composite is calculated by weighting Annaly's dedicated equity of each business to the corresponding peer average's operating expenses divided by total equity.

(4) ACREG excludes depreciation and amortization from Core Earnings, consistent with Commercial Real Estate Peers.

Annaly Advantages | Returns and Outperformance

Annaly outperformed all other yield options in 2017



Source: Bloomberg. mREITs represent BBREMTG Index. Utilities represent the Russell 3000 Utilities Index. MLPs represent the Alerian MLP Index. Asset Managers represent the S&P 500 Asset Management and Custody Bank Index. Banks represent the KBW Bank Index. S&P represents the S&P 500 index.

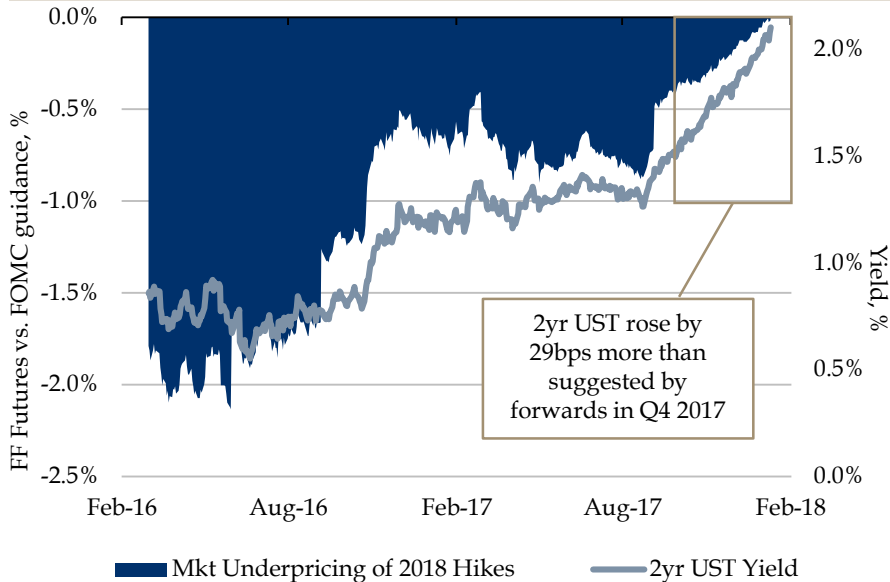
Note: Total return shown for the year ended December 31, 2017. Price to book multiples as of December 31, 2017.

Macro Outlook & Positioning

Macro Outlook | Interest Rate Environment

Fed hikes priced in to short-term yields⁽¹⁾

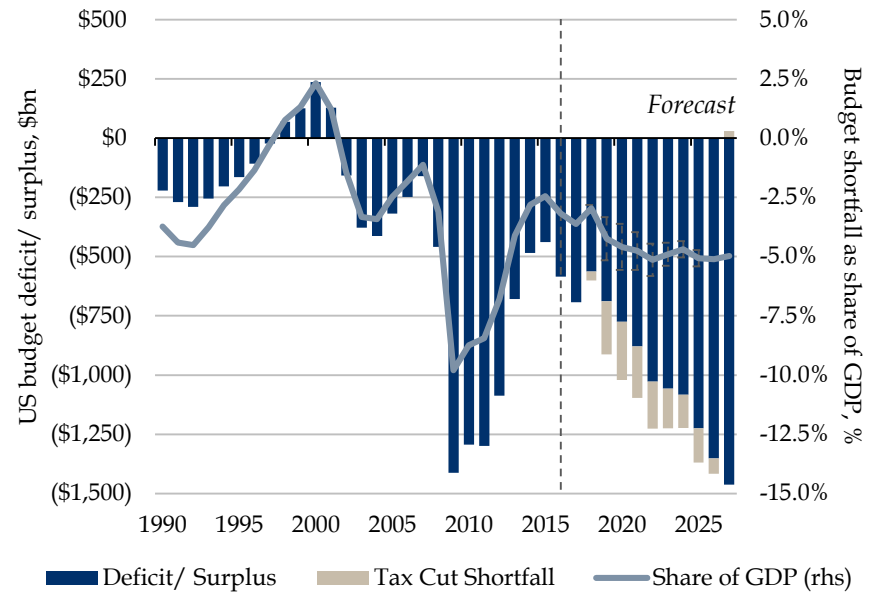
“The Committee expects that economic conditions will evolve in a manner that will warrant gradual increases in the federal funds rate”
 – Janet Yellen, December 2017 press conference



- After the re-pricing of front-end rates in 2017, the market is now more aligned with current Fed guidance of three hikes for 2018
- Risks for the Fed outlook are roughly balanced as hikes are somewhat priced in over the medium-term, however, remain uncertain over longer period
- Hiking path likely to remain gradual if inflation remains range bound below the Fed target

Supply could raise long-term yields⁽²⁾

“We do not foresee a need to alter our balance sheet normalization program”
 – Janet Yellen, December 2017 press conference



- Markets have begun pricing changes to foreign monetary policy
- Improved growth could boost real interest rates
- Long-end faces higher deficits and flows from Fed runoff that is expected to add \$495bn to supply in USTs and \$310bn in MBS over the next two years

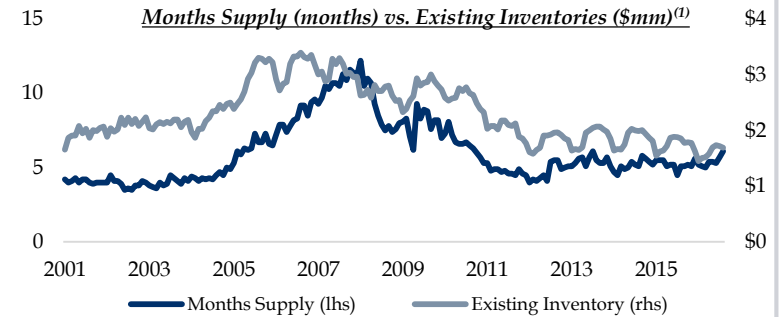
(1) Source: Bloomberg, Federal Reserve Board.

(2) Source: Bloomberg, Congressional Budget Office, Bureau of Economic Analysis.

Annaly is positioned to capitalize on numerous opportunities in the credit markets

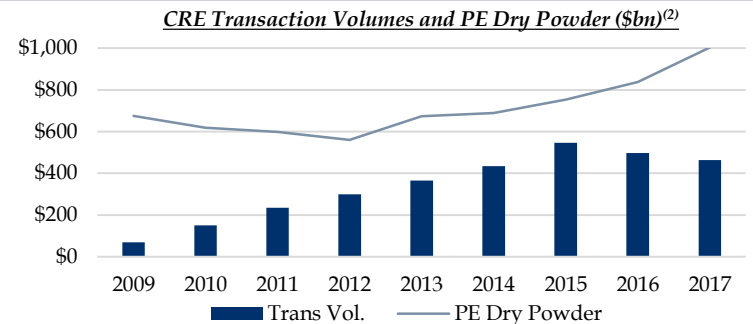
Residential Credit

- Supportive housing fundamentals have contributed to strong performance of Annaly's existing portfolio, while tight spreads have made it challenging to redeploy capital within securitized markets
- Limited housing inventories driving home prices



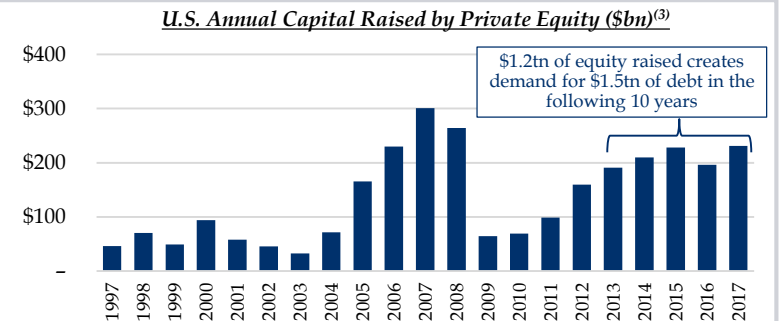
Commercial Real Estate

- While high valuations and structuring challenges continue to require a selective approach to new investments, the economic backdrop remains attractive
- Commercial real estate market characterized by significant liquidity on the lending side and intense competition for deals



Middle Market Lending

- PE fundraising continues to create significant demand for debt capital
- Banks in the middle market are capital constrained and distribution focused, creating a unique opportunity in the leveraged loan market



(1) Source: Bank of America Merrill Lynch Research.

(2) Source: Real Capital Analytics and Preqin Ltd.

(3) Source: Thomson Reuters. Capital raised includes all U.S. buyouts and mezzanine by private equity sponsors per Thomson Reuters as of December 31, 2017. Assumes that capital is deployed evenly over a five year period and equity is 45% of the capital structure based on the average of MM and BSL equity contribution for 2017 according to the Thomson Reuters Middle Market 4Q 17 Review as of January 8, 2018.

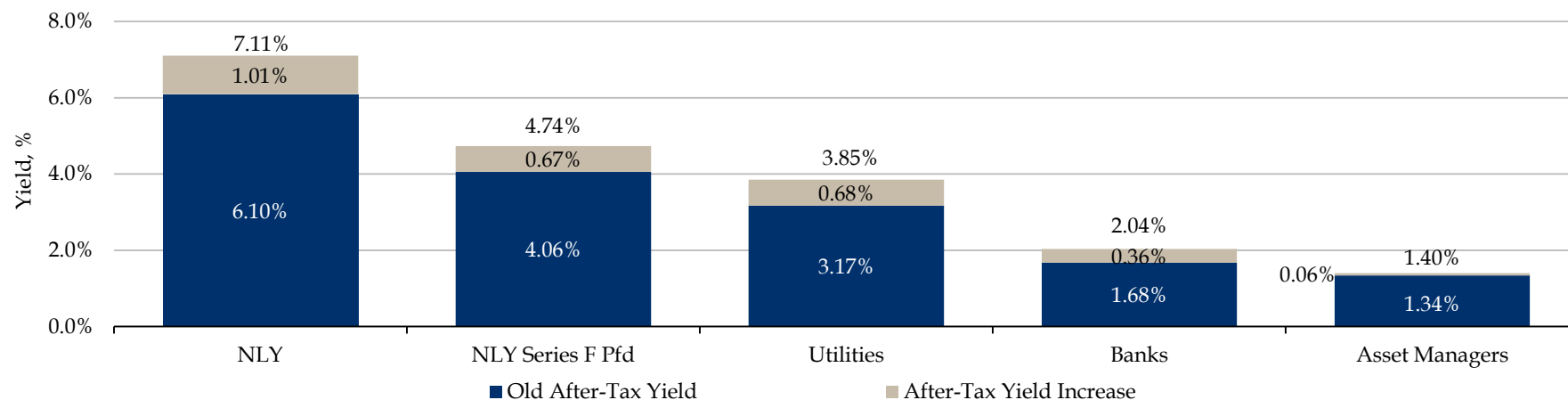
Macro Outlook | Tax Reform – Impact on Yield Sector Returns

Individual mortgage REIT investors should benefit from a significant decrease in dividend tax burden due to 20% REIT pass-through income deduction included in Tax Cuts and Jobs Act

Annaly retail investors projected to see significant increase in after-tax yields⁽¹⁾

- At the highest personal income tax bracket, the after-tax dividend yield for Annaly common equity holders is expected to improve by 16.6%
- Pass-through income deduction at the highest personal income tax bracket lowers effective tax rate on Annaly dividends from 39.6% to 29.6%

	Dividend Yield ⁽²⁾		Effective Investor Tax Rate ⁽¹⁾		Effective Investor After-Tax Dividend Yield			
	Old	New ⁽³⁾	Old	New	Old	New	Increase	% Change
NLY	10.1%	10.1%	39.6%	29.6%	6.1%	7.1%	1.0%	16.6%
NLY Series F Pfd	6.7%	6.7%	39.6%	29.6%	4.1%	4.7%	0.7%	16.6%
Utilities	4.0%	4.8%	20.0%	20.0%	3.2%	3.9%	0.7%	21.5%
Banks	2.1%	2.5%	20.0%	20.0%	1.7%	2.0%	0.4%	21.5%
Asset Managers	2.2%	2.2%	39.6%	37.0%	1.3%	1.4%	0.1%	4.3%



Source: Bloomberg, Company filings.

Note: Yield Sectors include Utilities represented by the Russell 3000 Utilities Index, Asset Managers represented by the S&P 500 Asset Management and Custody Bank Index, and Banks represented by the KBW Bank Index. Percentages may not sum due to rounding.

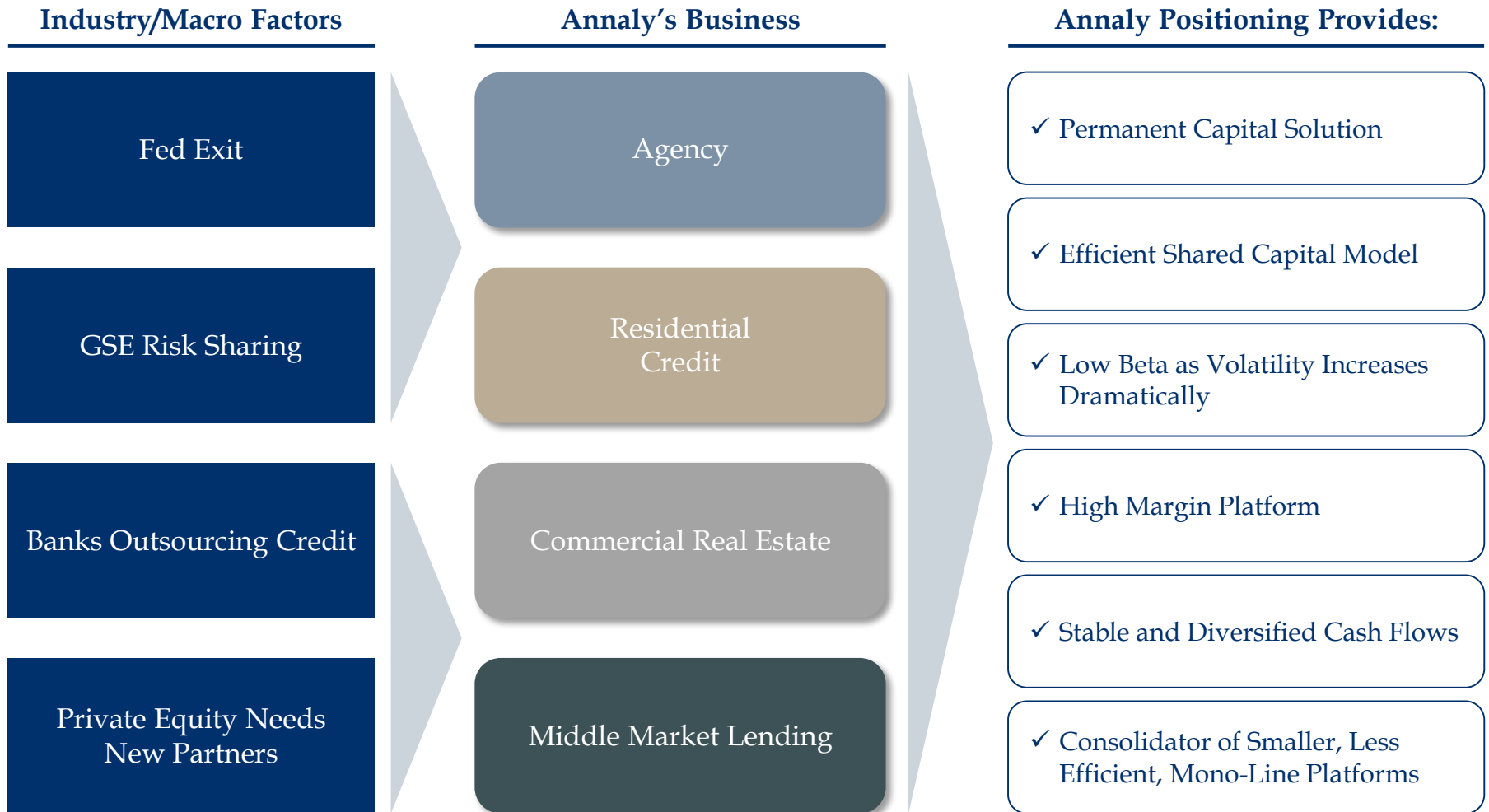
(1) Effective Investor Tax Rates assume highest income tax brackets. Dividends on Banks and Utilities are assumed to be qualified. NLY common and preferred stock dividends are 20% deductible under Tax Cuts and Jobs Act.

(2) Dividend Yields calculated using Bloomberg 2018 Dividend Estimates as of December 31, 2017.

(3) Utilities and Banks New Pre-Tax Dividend Yields assume constant dividend payout ratio on increased earnings due to stated corporate tax rate reduction from 35% to 21%. Asset Managers New Pre-Tax Dividend yield assumes asset managers are not taxed as corporations and provide a constant payout ratio.

Annaly's Opportunity

Annaly is positioned to capitalize on industry and macro evolution



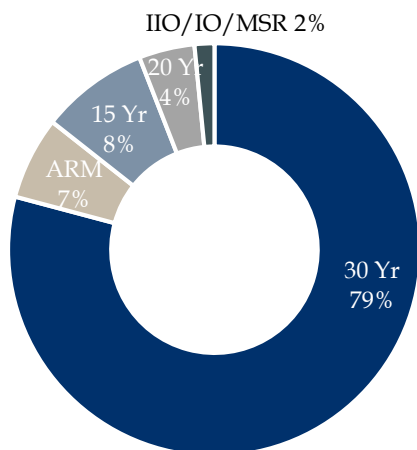
Business Update

Agency MBS Portfolio

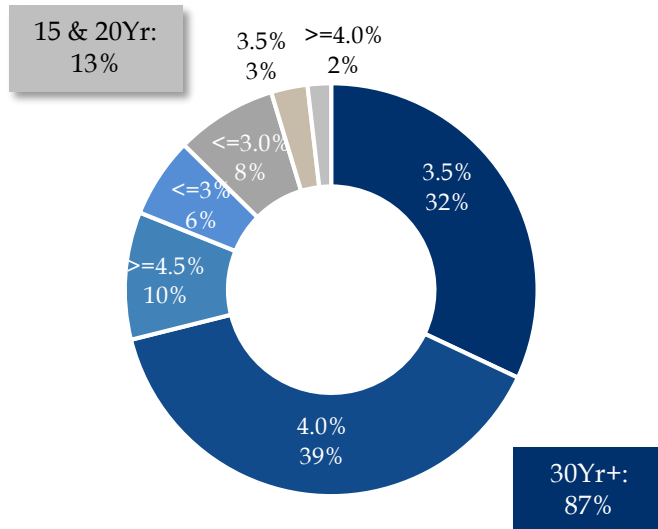
- The Agency portfolio was net unchanged at \$107.3 billion in assets at the end of Q4 2017⁽¹⁾
- Focused on rotating into higher quality specified pools while selling roughly 20% of the TBA position
- Economic leverage declined as a result of lower TBA balances and higher levels of equity following the October common equity offering
- Agency MBS spreads held firm in Q4 amid lower volatility, sound demand, and continued relative attractiveness of the sector
- ~81% of the portfolio is positioned in securities with prepayment protection at the end of Q4 2017

Total Dedicated Capital: \$11.6 billion⁽¹⁾

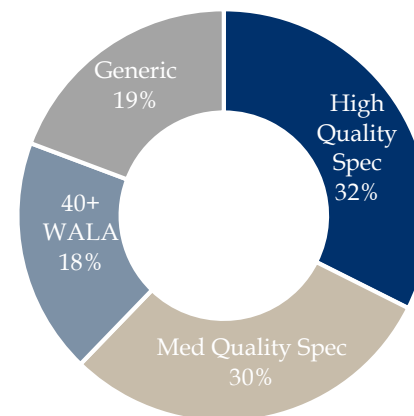
Asset Type⁽¹⁾



Pass Through Coupon Type



Portfolio Quality⁽²⁾



Note: Data as of December 31, 2017. Percentages based on fair market value and may not sum to 100% due to rounding.

(1) Includes TBA purchase contracts and MSR.

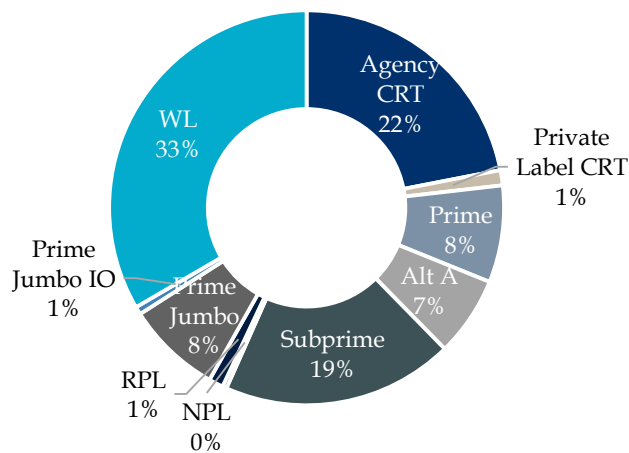
(2) "High Quality Spec" protection is defined as pools backed by original loan balances of up to \$125k, highest LTV pools (CR>125% LTV), geographic concentrations (NY/PR). "Med Quality Spec" includes 200k loan balance, 175k loan balance, 150k loan balance, high LTV pools (CQ 105-125% LTV). "40+ WALA" is defined as weighted average loan age greater than 40 months and treated as seasoned collateral.

Residential Credit Portfolio

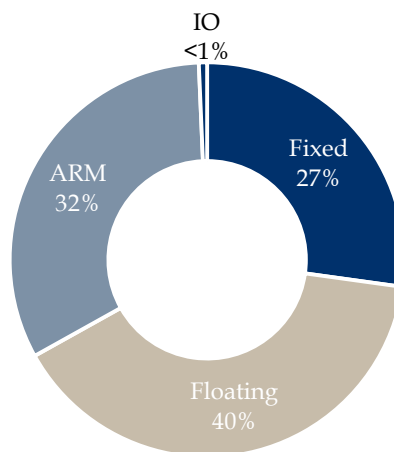
- The Residential Credit portfolio grew to \$2.8 billion at the end of Q4 2017, an ~6% increase from Q3 2017
 - The whole loan portfolio has grown to more than \$900mm on balance sheet since Q3 2016
- Expect whole loans to remain the largest growth component for the Residential Credit portfolio throughout 2018
- Residential Credit spreads continue to move tighter as the global search for yield persists
- Supportive housing fundamentals have translated to strong performance of our existing residential investments
- Continue to see improvement in Non-Agency repo funding levels, though not in lockstep with the tightening in asset yields

Total Dedicated Capital: \$1.6 billion

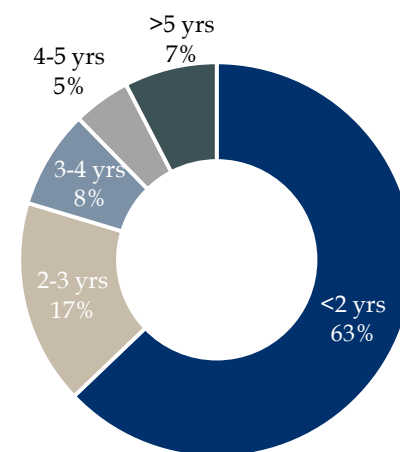
Sector Type⁽¹⁾⁽²⁾



Coupon Type⁽¹⁾



Effective Duration⁽¹⁾



Note: Data as of December 31, 2017. Portfolio statistics and percentages are based on fair market value and reflect economic interest in securitizations. Prime Jumbo and Prime classifications include the economic interest of certain positions that are classified as Residential Mortgage Loans within our Consolidated Financial Statements. Percentages may not sum to 100% due to rounding.

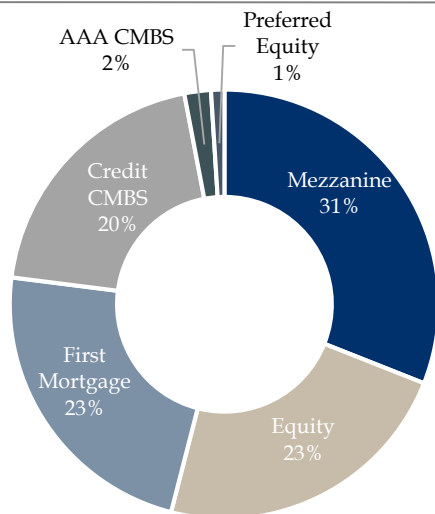
- (1) Pie charts are shown exclusive of securitized residential mortgage loans of a consolidated VIE.
 (2) Prime classification includes \$916k of Prime IO.

Commercial Real Estate Portfolio

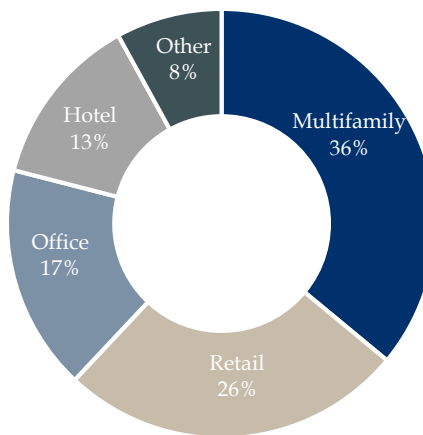
- The Commercial Real Estate portfolio was net unchanged at \$2.0 billion in assets at the end of Q4 2017
- Assets continue to perform as the supply/demand fundamentals in the U.S. Commercial Real Estate market remain favorable
- New investment activity has been moderate, primarily as a result of a cautious stance on credit and valuations, a significant decline in new acquisition activity by sponsors, and a highly competitive market
 - \$104 million of new investments closed in Q4 2017, coupled with \$13 million of additional fundings
 - \$132 million of payoffs/paydowns in Q4 2017
 - Borrowers achieved business plans / assets appreciated in value
- Active pipeline with quality opportunities, but will remain disciplined

Total Dedicated Capital: \$1.1 billion

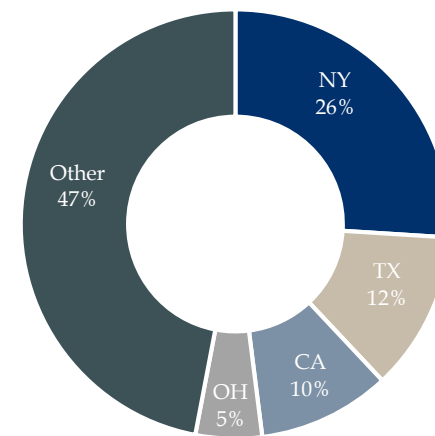
Asset Type



Sector Type



Geographic Concentration⁽¹⁾



Note: Data as of December 31, 2017. Portfolio statistics and percentages are based on economic interest and may not sum to 100% due to rounding. Data shown is exclusive of consolidated VIEs associated with B Piece commercial mortgage-backed securities and includes CMBS conduit securities.

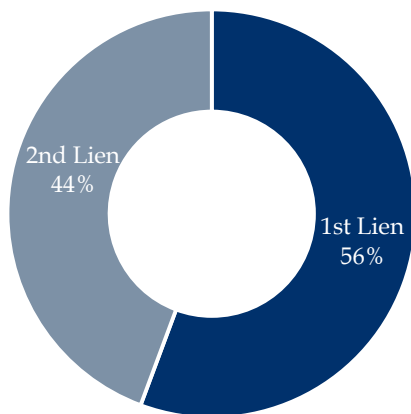
(1) Other includes 23 states, none of which represent more than 5% of total portfolio value.

Middle Market Lending Portfolio

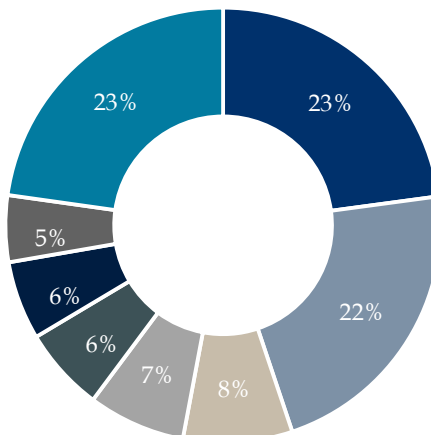
- The Middle Market Lending portfolio grew to over \$1.0 billion in assets at the end of Q4 2017, an ~18% increase from Q3 2017
- Second lien exposure has increased to 44% as AMML has more acutely focused on targeting second lien investments with cash flow characteristics that allow borrowers to quickly de-lever, resulting in first lien-like exposure with incremental returns
- Unlevered portfolio yield of 8.61% at the end of Q4 2017
- Portfolio of ~35 borrowers is well diversified by sponsor, industry and borrower

Total Dedicated Capital: \$0.8 billion

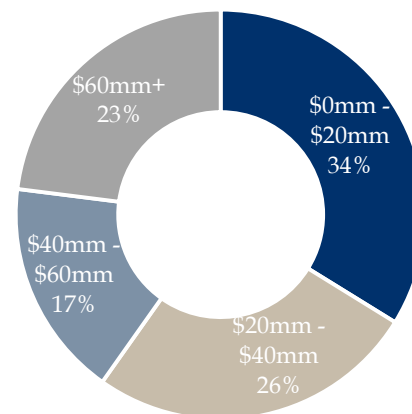
Lien Position



Industry⁽¹⁾



Loan Size⁽²⁾



- Technology
- Healthcare
- Business Services
- Transportation
- Coating/Engraving, Allied
- Telecommunications
- Specialty Equipment
- Other

Note: Data as of December 31, 2017. Percentages based on amortized cost and may not sum to 100% due to rounding.

(1) Based on Standard Industrial Classification industry categories.

(2) Breakdown based on aggregate dollar amount of individual investments made within the respective loan size buckets. Multiple investment positions with a single obligor shown as one individual investment.

Performance Highlights and Trends

Unaudited, dollars in thousands except per share amounts

	For the quarters ended				
	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016
GAAP net income (loss) per average common share ⁽¹⁾	\$0.62	\$0.31	(\$0.01)	\$0.41	\$1.79
Core earnings (excluding PAA) per average common share* ⁽¹⁾⁽²⁾	\$0.31	\$0.30	\$0.30	\$0.31	\$0.30
Core earnings per average common share* ⁽¹⁾⁽²⁾	\$0.30	\$0.26	\$0.23	\$0.29	\$0.53
PAA cost (benefit) per average common share	\$0.01	\$0.04	\$0.07	\$0.02	(\$0.23)
Dividends declared per common share	\$0.30	\$0.30	\$0.30	\$0.30	\$0.30
Book value per common share	\$11.34	\$11.42	\$11.19	\$11.23	\$11.16
Annualized GAAP return (loss) on average equity	20.58%	10.98%	0.46%	13.97%	57.23%
Annualized core return on average equity (excluding PAA)*	10.67%	10.57%	10.54%	10.66%	10.13%
Net interest margin	1.47%	1.33%	1.23%	1.47%	2.49%
Net interest margin (excluding PAA)*	1.51%	1.47%	1.53%	1.55%	1.53%
Agency mortgage-backed securities and debentures	\$90,551,763	\$85,889,131	\$73,963,998	\$72,708,490	\$75,589,873
Mortgage servicing rights	580,860	570,218	605,653	632,166	652,216
Residential credit portfolio ⁽³⁾	3,187,380	2,706,092	2,619,564	2,778,452	2,468,318
Commercial real estate investments ⁽⁴⁾	4,604,388	5,321,786	5,375,251	5,550,464	5,881,236
Corporate debt	1,011,275	856,110	773,957	841,265	773,274
Total residential and commercial investments	\$99,935,666	\$95,343,337	\$83,338,423	\$82,510,837	\$85,364,917
Leverage, at period-end ⁽⁵⁾	5.7x	5.4x	5.6x	5.6x	5.8x
Economic leverage, at period-end ⁽⁶⁾	6.6x	6.9x	6.4x	6.1x	6.4x
Credit portfolio as a percentage of stockholders' equity ⁽⁷⁾	24%	23%	20%	21%	20%

*Represents a non-GAAP financial measure; see Appendix.

- (1) Net of dividends on preferred stock. The quarter ended December 31, 2017 excludes, and the quarter ended September 30, 2017, includes cumulative and undeclared dividends of \$8.3 million on the Company's Series F Preferred stock as of September 30, 2017.
- (2) Core earnings is defined as net income (loss) excluding gains or losses on disposals of investments and termination of interest rate swaps, unrealized gains or losses on interest rate swaps and investments measured at fair value through earnings, net gains and losses on trading assets, impairment losses, net income (loss) attributable to noncontrolling interest, corporate acquisition related expenses and certain other non-recurring gains or losses, and inclusive of TBA dollar roll income (a component of Net gains (losses) on trading assets) and realized amortization of MSR's (a component of net unrealized gains (losses) on investments measured at fair value through earnings). Core earnings (excluding PAA) excludes 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 the Company's Agency mortgage-backed securities.
- (3) Includes non-Agency securities, credit risk transfer securities and residential mortgage loans; includes consolidated VIEs.
- (4) Includes consolidated VIEs and loans held for sale.
- (5) Debt consists of repurchase agreements, other secured financing, securitized debt, participation sold, and mortgages payable. Securitized debt, participation sold and mortgages payable are non-recourse to the Company.
- (6) Computed as the sum of recourse debt, TBA derivative notional outstanding and net forward purchases of investments divided by total equity. Recourse debt consists of repurchase agreements, other secured financing and securitized debt, participation sold and mortgages payable are non-recourse to the Company and are excluded from this measure.
- (7) Represents CRT securities, non-Agency mortgage-backed securities, residential mortgage loans, commercial real estate debt investments and preferred equity investments, loans held for sale, investments in commercial real estate and corporate debt, net of financing.

Appendix: Non-GAAP Reconciliations

Non-GAAP Reconciliations

Unaudited, dollars in thousands except per share amounts

To supplement its consolidated financial statements, which are prepared and presented in accordance with GAAP, the Company provides non-GAAP financial measures. These measures should not be considered a substitute for, or superior to, financial measures computed in accordance with GAAP. These non-GAAP measures provide additional detail to enhance investor understanding of the Company's period-over-period operating performance and business trends, as well as for assessing the Company's performance versus that of industry peers. Reconciliations of these non-GAAP financial measures to their most directly comparable GAAP results are provided below.

	For the quarters ended				
	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016
<i>GAAP to Core Reconciliation</i>					
GAAP net income (loss)	\$746,771	\$367,315	\$14,522	\$440,408	\$1,848,483
Less:					
Realized (gains) losses on termination of interest rate swaps	160,075	-	58	-	55,214
Unrealized (gains) losses on interest rate swaps	(484,447)	(56,854)	177,567	(149,184)	(1,430,668)
Net (gains) losses on disposal of investments	(7,895)	11,552	5,516	(5,235)	(7,782)
Net (gains) losses on trading assets	(121,334)	(154,208)	14,423	(319)	139,470
Net unrealized (gains) losses on investments measured at fair value through earnings	12,115	67,492	(16,240)	(23,683)	(110,742)
Net (income) loss attributable to non-controlling interest	151	232	102	103	87
Plus:					
TBA dollar roll income ⁽¹⁾	89,479	94,326	81,051	69,968	98,896
MSR amortization ⁽²⁾	(19,331)	(16,208)	(17,098)	(14,030)	(27,018)
Core earnings*	\$375,584	\$313,647	\$259,901	\$318,028	\$565,940
Less:					
Premium amortization adjustment (PAA) cost (benefit)	11,367	39,899	72,700	17,870	(238,941)
Core Earnings (excluding PAA)*	386,951	353,546	332,601	335,898	326,999
GAAP net income (loss) per average common share ⁽³⁾	\$0.62	\$0.31	(\$0.01)	\$0.41	\$1.79
Core earnings per average common share ^{(3)*}	\$0.30	\$0.26	\$0.23	\$0.29	\$0.53
Core earnings (excluding PAA) per average common share ^{(3)*}	\$0.31	\$0.30	\$0.30	\$0.31	\$0.30
Annualized GAAP return (loss) on average equity	20.58%	10.98%	0.46%	13.97%	57.23%
Annualized core return on average equity (excluding PAA)*	10.67%	10.57%	10.54%	10.66%	10.13%

* Represents a non-GAAP financial measure.

(1) Represents a component of Net gains (losses) on trading assets.

(2) 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 investments measured at fair value.

(3) Net of dividends on preferred stock. The quarter ended December 31, 2017 excludes, and the quarter ended September 30, 2017, includes cumulative and undeclared dividends of \$8.3 million on the Company's Series F Preferred stock as of September 30, 2017.

Non-GAAP Reconciliations (Cont'd)

Unaudited, dollars in thousands except per share amounts

To supplement its consolidated financial statements, which are prepared and presented in accordance with GAAP, the Company provides non-GAAP financial measures. These measures should not be considered a substitute for, or superior to, financial measures computed in accordance with GAAP. These non-GAAP measures provide additional detail to enhance investor understanding of the Company's period-over-period operating performance and business trends, as well as for assessing the Company's performance versus that of industry peers. Reconciliations of these non-GAAP financial measures to their most directly comparable GAAP results are provided below.

	For the quarters ended				
	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016
<u>Premium Amortization Reconciliation</u>					
Premium amortization expense	\$203,951	\$220,636	\$251,084	\$203,634	(\$19,812)
Less:					
PAA cost (benefit)	\$11,367	\$39,899	\$72,700	\$17,870	(\$238,941)
Premium amortization expense (excluding PAA)	\$192,584	\$180,737	\$178,384	\$185,764	\$219,129
<u>Interest Income (excluding PAA) Reconciliation</u>					
GAAP interest income	\$745,423	\$622,550	\$537,426	\$587,727	\$807,022
PAA cost (benefit)	\$11,367	\$39,899	\$72,700	\$17,870	(\$238,941)
Interest income (excluding PAA)*	\$756,790	\$662,449	\$610,126	\$605,597	\$568,081
<u>Economic Interest Expense Reconciliation</u>					
GAAP interest expense	\$318,711	\$268,937	\$222,281	\$198,425	\$183,396
Add:					
Interest expense on interest rate swaps used to hedge cost of funds	73,957	78,564	84,252	88,966	92,841
Economic interest expense*	\$392,668	\$347,501	\$306,533	\$287,391	\$276,237
<u>Economic Net Interest Income (excluding PAA) Reconciliation</u>					
Interest income (excluding PAA)	\$756,790	\$662,449	\$610,126	\$605,597	\$568,081
Less:					
Economic interest expense*	392,668	347,501	306,533	287,391	276,237
Economic net interest income (excluding PAA)*	\$364,122	\$314,948	\$303,593	\$318,206	\$291,844
<u>Economic Metrics (excluding PAA)</u>					
Interest income (excluding PAA)	\$756,790	\$662,449	\$610,126	\$605,597	\$568,081
Average interest earning assets	\$100,247,589	\$89,253,094	\$83,427,268	\$85,664,151	\$84,799,222
Average yield on interest earning assets (excluding PAA)*	3.02%	2.97%	2.93%	2.83%	2.68%
Economic interest expense	\$392,668	\$347,501	\$306,533	\$287,391	\$276,237
Average interest bearing liabilities	\$85,992,215	\$76,382,315	\$70,486,779	\$72,422,968	\$72,032,600
Average cost of interest bearing liabilities	1.83%	1.82%	1.74%	1.59%	1.53%
Net interest spread (excluding PAA)*	1.19%	1.15%	1.19%	1.24%	1.15%
Net interest margin (excluding PAA)*	1.51%	1.47%	1.53%	1.55%	1.53%

* Represents a non-GAAP financial measure.