

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED: December 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[®]

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)

10036

(Zip Code)

(212) 696-0100

(Registrant's telephone number, including area code)

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
7.50% 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
6.75% Series I Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock	NLY.I	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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 filer

Accelerated
filer

Non-accelerated
filer

Smaller reporting
company

Emerging growth
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

At June 30, 2019, the aggregate market value of the voting common stock held by non-affiliates of the registrant was approximately \$13.3 billion, based on the closing sales price of the registrant's common stock on such date as reported on the New York Stock Exchange.

The number of shares of the registrant's Common Stock outstanding on January 31, 2020 was 1,430,324,298.

DOCUMENTS INCORPORATED BY REFERENCE

The registrant intends to file a definitive proxy statement pursuant to Regulation 14A within 120 days of the end of the fiscal year ended December 31, 2019. Portions of such proxy statement are incorporated by reference into Part III of this Form 10-K.

**ANNALY CAPITAL MANAGEMENT, INC.
2019 FORM 10-K ANNUAL REPORT**

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PART I

ITEM 1. BUSINESS

“Annaly,” “we,” “us,” or “our” refers to Annaly Capital Management, Inc. and our wholly-owned subsidiaries, except where it is made clear that the term means only the parent company. Unless the context indicates otherwise, references to the internalization of our management or the “Internalization” are forward-looking statements and should not be assumed to have happened, or likely to happen, on any terms indicated or at all.

Refer to the section titled “Glossary of Terms” located at the end of Part II, Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” for definitions of certain of the commonly used terms in this annual report on Form 10-K.

The following description of our business should be read in conjunction with the Consolidated Financial Statements and the related Notes thereto, and the information set forth under the heading “Special Note Regarding Forward-Looking Statements” in Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

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Business Overview

Introduction

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 optimize our returns through prudent management of our diversified investment strategies. We are a Maryland corporation founded in 1997 that has elected to be taxed as a real estate investment trust (“REIT”). Until the closing of the Internalization (as defined below), we will continue to be 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.

We believe that our business objectives are supported by our size and conservative financial posture relative to the industry, the extensive experience of our employees, the diversity of our investment strategy, a comprehensive risk management approach, the availability and diversification of financing sources and our operational efficiencies.

Investment Groups

We have made significant investments in our business as part of the diversification of our investment strategy, including the expansion and scaling of our four investment groups, which are 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 in non-Agency residential mortgage assets within the securitized product 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 debt financing to private equity-backed middle market businesses across the capital structure.

Operating Platform

Our operating platform has expanded in support of our diversification strategy, and has included investments in systems, infrastructure and personnel. Our technology investments have led to the development of proprietary portfolio analytics, financial and capital allocation modeling, and other risk and reporting tools, which, coupled with cutting-edge digital transformation applications, support the diversification and operating efficiency of our business. Our operating platform supports our investments in Agency assets as well as residential credit assets, commercial real estate assets, residential mortgage loans, mortgage servicing rights and corporate loans. The diversity of our investment alternatives provides us the flexibility to adapt to changes in market conditions and to take advantage of potential opportunities.

Recent Developments

Interim Chief Executive Officer and Ongoing Permanent Chief Executive Officer Search

On November 20, 2019, our board of directors (“Board”) appointed Glenn A. Votek, who had served as our Chief Financial Officer since 2013, as Chief Executive Officer and President, on an interim basis. It is expected that Mr. Votek, who was also elected to the Board, will serve in such roles until the appointment by the Board of a permanent chief executive officer and president. The Board is conducting a formal search for a permanent chief executive officer. Mr. Votek has indicated that, following the appointment of a permanent chief executive officer and president, he intends to transition to a temporary advisory role with Annaly and to continue serving as an active member of the Board.

Internalization

On February 12, 2020, we entered into an internalization agreement (the “Internalization Agreement”) with our Manager and certain affiliates of our Manager. Pursuant to the Internalization Agreement, we agreed to acquire all of the outstanding equity interests of our Manager and our Manager’s direct and indirect parent companies from their respective owners (the “Internalization”) for a nominal cash purchase price of one dollar (\$1.00). As a result of the Internalization, our Manager will cease to perform any outside management services for us and we will become an internally-managed REIT. We anticipate that the closing will occur in the second quarter of 2020.

In connection with the Internalization, we entered into employment and severance agreements with our executive officers (other than Mr. Votek) that will become effective at the closing of the Internalization. In addition, the Amended and Restated Management

Agreement, dated as of August 1, 2018, between us and our Manager (as amended by Amendment No. 1 thereto, dated as of March 27, 2019, the “Management Agreement”) will be terminated at the closing of the Internalization, and our Manager has agreed to waive any Acceleration Fee (as defined in the Management Agreement) solely as related to the closing of the Internalization. If the closing does not occur, the Management Agreement will revert to the form it was in immediately prior to the execution of the Internalization Agreement in all respects, including with respect to the Acceleration Fee. Upon closing of the Internalization, all employees of the Manager will become employees of Annaly, Annaly will no longer pay a management fee to the Manager, and Annaly going forward will pay the compensation of all employees.

The Internalization Agreement and the related transactions and agreements were approved by the Board, with the unanimous approval of the independent directors of the Board, following the unanimous recommendation of a special committee of independent directors of the Board (the “Special Committee”). Both the Special Committee and the Manager obtained advice from separate legal and independent financial advisors. The Special Committee was also assisted by an independent compensation consultant that was retained by the Compensation Committee (the “Compensation Committee”) of the Board in connection with the employment arrangements discussed above).

The consummation of the Internalization is subject to the satisfaction or waiver of certain conditions and may not close on the terms or under the conditions described in this annual report on Form 10-K, or at all. For more information regarding the Internalization, the Internalization Agreement and the various related employment arrangement with our employees (including our senior management), please see our Current Report on Form 8-K filed with the Securities and Exchange Commission (the “SEC” or the “Commission”) on February 12, 2020.

Business and Investment Strategy

Shared Capital Model

We operate a diversified company comprised of four investment groups, each of which has multiple investment options to capitalize on attractive relative returns and market opportunities. Through our diversification strategy we maintain 38 investment options across our investment groups. Our shared capital model drives our capital allocation strategy allowing us to rotate our investments based on relative value while also managing risk.

Strategic Relationships

A key element of our strategy is to establish and grow strategic relationships with industry leading partners in order to develop and broaden access to quality originations flow as well as to leverage third party operations to efficiently manage operating costs, all in an effort to generate attractive risk adjusted returns for our shareholders. Additionally, we have attracted capital partners to our business, augmenting our public capital markets efforts, which has resulted in increased scale without sacrificing balance sheet liquidity. Certain of our strategic relationships also afford us the opportunity to support communities through socially responsible investing.

We have created over 25 partnerships across our investment groups including the following:

- Annaly Residential Credit Group has established relationships with key mortgage loan originators and aggregators including well-known money center banks, allowing us to efficiently source proprietary originations suited to our risk parameters.
- Annaly Commercial Real Estate Group maintains a partnership with Pearlmark Real Estate Partners, a leading real estate private equity sponsor, providing access to co-investment opportunities through their seasoned commercial real estate investment team.
- We have partnered with a premier mortgage servicer for MSR assets through our joint venture with a leading Sovereign Wealth Fund.
- We have partnered with Capital Impact Partners, a national community development financial institution, to create a social impact joint venture supporting projects in underserved communities across the country.

Our Portfolio and Capital Allocation Policy

Under our capital allocation policy and subject to oversight by our Board, we may allocate our investments within our target asset classes as we determine to be appropriate from time to time.

Our Board may adopt changes to our capital allocation policy and targeted assets at its discretion.

The nature of our assets and our operations are intended to meet our REIT qualification requirements and our exemption from registration as an investment company under the Investment Company Act of 1940, as amended (“Investment Company Act”).

Our portfolio composition and capital allocation at December 31, 2019 and 2018 were as follows:

Investment Group	December 31, 2019		December 31, 2018	
	Percentage of Portfolio	Capital Allocation ⁽¹⁾	Percentage of Portfolio	Capital Allocation ⁽¹⁾
Residential				
Annaly Agency Group ⁽²⁾⁽³⁾⁽⁴⁾	93%	74%	93%	73%
Annaly Residential Credit Group ⁽³⁾⁽⁴⁾	3%	10%	3%	10%
Commercial				
Annaly Commercial Real Estate Group ⁽³⁾⁽⁴⁾	2%	7%	2%	7%
Annaly Middle Market Lending Group	2%	9%	2%	10%

(1) Capital allocation represents the percentage of equity allocated to each category.

(2) Includes MSR and TBA purchase contracts.

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

(4) Net of securitized debt of consolidated VIEs.

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 even 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 generation 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 comply with regulatory requirements needed to maintain our REIT status and our exemption from registration under the Investment Company Act.

Our Board has reviewed and approved the investment and operating policies and strategies that support our risk appetite statement set forth in this Form 10-K. Our Board has the power to modify or waive these policies and strategies to the extent that our Board, in its discretion, determines that the modification or waiver is in the best interests of our stockholders. Among other factors, market developments which affect our policies and strategies or which change our assessment of the market may cause our Board to revise our policies and strategies.

We may seek to expand our capital base in order to further increase our ability to acquire new and different types of assets when the potential returns from new investments appear attractive relative to the targeted risk-adjusted returns. We may in the future acquire assets or companies by offering our debt or equity securities in exchange for such opportunities.

Target Assets

Within the confines of the risk appetite statement, we seek to generate the highest risk-adjusted returns on capital invested, after consideration of the following:

- The amount, nature and variability of anticipated cash flows from the asset across a variety of interest rate, yield, spread, financing cost, credit loss and prepayment scenarios;
- The liquidity of the asset;
- The ability to pledge the asset to secure collateralized borrowings;
- When applicable, the credit of the underlying borrower;
- The costs of financing, hedging and managing the asset;
- The impact of the asset to our REIT compliance and our exemption from registration under the Investment Company Act; and
- The capital requirements associated with the purchase and financing of the asset.

We target the purchase and sale of the assets listed below as part of our investment strategy. Our targeted assets and asset acquisition strategy may change over time as market conditions change and as our business evolves.

Investment Group	Targeted Asset Class	Description
Annaly Agency Group	Agency mortgage-backed securities	Agency pass-through certificates issued or guaranteed by Freddie Mac, Fannie Mae or Ginnie Mae. Other Agency MBS include collateralized mortgage obligations (“CMOs”), interest-only securities and inverse floaters
	To-be-announced forward contracts (“TBAs”)	Forward contracts for Agency pass-through certificates
	Agency commercial mortgage-backed securities	Pass-through certificates collateralized by commercial mortgages guaranteed by Freddie Mac, Fannie Mae or Ginnie Mae
	Mortgage Servicing Rights (“MSRs”)	Rights to service a pool of residential loans in exchange for a portion of the interest payments made on the loans
Annaly Residential Credit Group	Residential mortgage loans	Residential mortgage loans that are not guaranteed by Freddie Mac, Fannie Mae or Ginnie Mae
	Residential mortgage-backed securities	Securities collateralized by pools of residential loans that are not guaranteed by one of the Agencies
	Agency or private label credit risk transfer securities (“CRT”)	Risk sharing transactions issued by Freddie Mac and Fannie Mae and similarly structured transactions arranged by third party market participants, designed to synthetically transfer mortgage credit risk to private investors
Annaly Commercial Real Estate Group	Commercial mortgage loans	Loans collateralized by commercial real estate properties
	Commercial mortgage-backed securities	Securities collateralized by pools of commercial mortgage loans
	Mezzanine loans	Loans collateralized by commercial real estate properties subordinate to first mortgage loans
	Real property	Commercial real estate properties that generate current cash flow
Annaly Middle Market Lending Group	First lien middle market loans	Senior secured loans made to middle market companies that are the first to be repaid in the event of a borrower default
	Second lien middle market loans	Senior secured loans to middle market companies that have a junior claim on collateral to those of first lien loans

We believe that future interest rates and mortgage prepayment rates are very difficult to predict. Therefore, we seek to acquire assets which we believe will provide attractive returns over a broad range of interest rate and prepayment scenarios.

Capital Structure and Financing

Our capital structure is designed to offer an efficient complement of funding sources to generate positive risk-adjusted returns for our stockholders while maintaining appropriate liquidity to support our business and meet our financial obligations under periods of market stress. To maintain our desired capital profile, we utilize a mix of debt and equity funding. Debt funding may include the use of repurchase agreements, Federal Home Loan Bank (“FHLB”) advances, loans, securitizations, participation sold, lines of credit, asset backed lending facilities, corporate bond issuance, convertible bonds, mortgages payable or other liabilities. Equity capital primarily consists of common and preferred stock.

We finance our Agency mortgage-backed securities and residential credit investments primarily with repurchase agreements. We also finance certain commercial real estate investments with repurchase agreements. We seek to diversify our exposure and limit concentrations by entering into repurchase agreements with multiple counterparties. We enter into repurchase agreements with broker-dealers, commercial banks and other lenders that typically offer this type of financing. We enter into collateralized borrowings with financial institutions meeting internal credit standards and we monitor the financial condition of these institutions on a regular basis. At December 31, 2019, we had \$101.7 billion of repurchase agreements outstanding.

Additionally, our wholly-owned subsidiary, Arcola Securities, Inc. (“Arcola”), provides direct access to bilateral and triparty funding as a FINRA member broker-dealer. As an eligible institution, Arcola also raises funds through the General Collateral Finance Repo service offered by the Fixed Income Clearing Corporation (“FICC”), with FICC acting as the central counterparty. Arcola provides us greater depth and diversity of repurchase agreement funding while also limiting our counterparty exposure.

To reduce our liquidity risk we maintain a laddered approach to our repurchase agreements. At December 31, 2019, the weighted average days to maturity was 65 days.

We maintain access to FHLB funding through our captive insurance subsidiary Truman Insurance Company LLC (“Truman”). We finance eligible Agency, residential and commercial investments through the FHLB. While a January 2016 Federal Housing Finance Agency (“FHFA”) ruling requires captive insurance companies to terminate their FHLB membership, given the length of its membership, Truman has been granted a five year sunset provision whereby its membership is scheduled to 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 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. In addition to FHLB funding, we may utilize bilateral borrowing facilities, securitization funding and, in the case of equity investments in commercial real estate, mortgage financing.

We utilize leverage to enhance the risk-adjusted returns generated for our stockholders. We generally expect to maintain an economic leverage ratio of no greater than 10:1. This ratio varies from time to time based upon various factors, including our management’s opinion of the level of risk of our assets and liabilities, our mix of assets, 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, lastly, our assessment of domestic and international market conditions. Since the financial crisis beginning in 2007, we have maintained an economic leverage ratio below 8:1, which is generally lower than what our leverage ratio had been prior to 2007. For purposes of calculating this ratio, our economic leverage ratio is equal to the sum of Recourse Debt, cost basis of TBA and CMBX derivatives outstanding, and net forward purchases (sales) of investments divided by total equity.

Our target economic leverage ratio is determined under our capital management policy. Should our actual economic leverage ratio increase above the target level, 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.

The following table presents our leverage, economic leverage and capital ratios as of the periods presented.

	December 31, 2019	December 31, 2018
Leverage ratio	7.1:1	6.3:1
Economic leverage ratio	7.2:1	7.0:1
Capital ratio	12.0%	12.1%

Operating Platform

We maintain a flexible and scalable operating platform to support the management and maintenance of our diverse asset portfolio. We have invested in our infrastructure to enhance resiliency, efficiency, cybersecurity, and leveragability while also ensuring coverage of our target assets. Our information technology applications span the portfolio life-cycle including pre-trade analysis, trade execution and capture, trade settlement and financing, monitoring, and financial accounting and reporting.

Technology applications also support our control functions including risk, compliance, middle- and back-office functions. We have added breadth to our operating platform to accommodate diverse asset classes and drive automation-based efficiencies. Our business operations include a centralized collateral management function that permits in-house settlement and self-clearing, thereby creating greater control and management of our collateral. Through technology, we have also incorporated exception based processing, critical data assurance and paperless workflows. Our infrastructure investment has driven operating efficiencies while expanding the platform. Routine disaster recovery and penetration testing enhances our systems resiliency, security and recovery of critical systems throughout the computing estate.

Risk Management

Risk is a natural element of our business. Effective risk management is of critical importance to our success. The objective of our risk management framework is to identify, measure, monitor and control the key risks to which we are subject. Our approach to risk management is comprehensive and has been designed to foster a holistic view of risk. For a full discussion of our risk management process and policies please refer to the section titled “Risk Management” of Part II, Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Management Agreement

Until the closing of the Internalization, management of Annaly will continue to be conducted by the Manager through the authority delegated to it in the Management Agreement and pursuant to the policies established by our Board. The Management Agreement was amended and restated on August 1, 2018, and further amended on March 27, 2019 (the management agreement, as amended and restated, is referred to as the “Management Agreement”). On February 12, 2020, we entered the Internalization Agreement with our Manager pursuant to which, upon closing, the Management Agreement will be terminated. If the closing does not occur, the Management Agreement will remain in place on the terms and conditions described herein.

The Management Agreement’s current term ends on December 31, 2021 and will automatically renew for successive two-year terms unless at least two-thirds of our independent directors or the holders of a majority of our outstanding shares of common stock in their sole discretion elect to terminate the agreement for any or no reason. At any time during the term or any renewal term we may deliver to the Manager written notice of our intention to terminate the Management Agreement upon 365 days notice (such notice, a “Termination Notice”). During any period between the date we deliver a Termination Notice (the “Notice Delivery Date”) and the date designated by us as the date on which the Manager shall cease to provide management services (the “Termination Date”), the Manager shall continue to perform its duties and obligations under the Management Agreement and cooperate with us to execute an orderly transition to a new manager. If we elect to terminate the Management Agreement, we may elect to accelerate the Termination Date to a date that is between seven and 90 days after the Notice Delivery Date. If we do not elect to do so, 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 us or the Manager, we 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 also provides that the Manager may terminate the Management Agreement by providing to us prior written notice of its intention to terminate the Management Agreement no less than 365 days prior to the date designated by the Manager on which the Manager would cease to provide services or such earlier date as determined by us in our sole discretion.

Under the Management Agreement, the Manager, subject to the supervision and direction of our Board, is responsible for (i) the selection, purchase and sale of assets for our investment portfolio; (ii) recommending alternative forms of capital raising; (iii) supervising our 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 our assets and operations as may be appropriate. In exchange for the management services, we pay the Manager a monthly management fee, and the Manager is responsible for providing personnel to manage us 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, we 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 management services. Pursuant to the March 27, 2019 amendment to the Management Agreement, we now pay the Manager a monthly management fee for 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. We do not pay the Manager any incentive fees. In addition to the management fee, in August 2018, we began reimbursing the Manager for the cost of certain legal, tax, accounting and other support and advisory services provided by employees of the Manager to us. Such reimbursements are permitted pursuant to the terms of the Management Agreement provided the related costs are no greater than those that would be payable to comparable third party providers.

The Management Agreement provides that during the term of the Management Agreement and, in the event of termination of this Agreement by the Manager without cause, for a period of one year following such termination, the Manager will not, without our prior written consent, manage, operate, join, control, participate in, or advise any person other than us without the prior written consent of the Risk Committee of the Board.

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

Information about our Executive Officers

The following table sets forth certain information as of January 31, 2020 concerning our executive officers:

Name	Age	Title
Glenn A. Votek	61	Interim Chief Executive Officer and President
Serena Wolfe	40	Chief Financial Officer
David L. Finkelstein	47	Chief Investment Officer
Timothy P. Coffey	46	Chief Credit Officer
Anthony C. Green	45	Chief Corporate Officer, Chief Legal Officer and Secretary

Glenn A. Votek has served as Interim Chief Executive Officer and President of Annaly and a member of Annaly's Board since November 2019. Mr. Votek previously served as Chief Financial Officer of Annaly from August 2013 until December 2019 and as Chief Financial Officer of Fixed Income Discount Advisory Company ("FIDAC"), a former wholly-owned subsidiary of the Company, from August 2013 until October 2015. Mr. Votek joined Annaly in May 2013 from CIT Group where he had been an Executive Vice President and Treasurer since 1999 and President of Consumer Finance since 2012. Prior to that, Mr. Votek worked at AT&T and its finance subsidiary from 1986 until 1999 in various financial management roles. Mr. Votek has a B.S. in Finance and Economics from the University of Arizona/Kean College and a M.B.A. in Finance from Rutgers University.

Serena Wolfe has served as Chief Financial Officer of Annaly since December 2019. Prior to joining Annaly in 2019, Ms. Wolfe served as a Partner at Ernst & Young ("EY") since 2011 and as its Central Region Real Estate Hospitality & Construction ("RHC") leader from 2017 to November 2019, managing the go-to-market efforts and client relationships across the sector. Ms. Wolfe was previously also EY's Global RHC Assurance Leader. Ms. Wolfe practiced with EY for over 20 years, including six years with EY Australia and 16 years with the U.S. practice. Ms. Wolfe graduated from the University of Queensland with a Bachelor of Commerce in Accounting. She is a Certified Public Accountant in the states of New York, California, Illinois and Pennsylvania.

David L. Finkelstein has served as Chief Investment Officer of Annaly since November 2016. Mr. Finkelstein previously served as Annaly's Chief Investment Officer, Agency and RMBS beginning in February 2015 and as Annaly's Head of Agency Trading beginning in August 2013. Prior to joining Annaly in 2013, Mr. Finkelstein served for four years as an Officer in the Markets Group of the Federal Reserve Bank of New York where he was the primary strategist and policy advisor for the MBS purchase program. Mr. Finkelstein has over 20 years of experience in fixed income investment. Prior to the Federal Reserve Bank of New York, Mr. Finkelstein held Agency MBS trading positions at Salomon Smith Barney, Citigroup Inc. and Barclays PLC. Mr. Finkelstein received his B.A. in Business Administration from the University of Washington and his M.B.A. from the University of Chicago, Booth School of Business. Mr. Finkelstein also holds the Chartered Financial Analyst® designation.

Timothy P. Coffey has served as Chief Credit Officer of Annaly since January 2016. Mr. Coffey served as Annaly's Head of Middle Market Lending from 2010 until January 2016. Mr. Coffey has over 20 years of experience in leveraged finance and has held a variety of origination, execution, structuring and distribution positions. Prior to joining Annaly in 2010, Mr. Coffey served as Managing Director and Head of Debt Capital Markets in the Leverage Finance Group at Bank of Ireland. Prior to that, Mr. Coffey held positions at Scotia Capital, the holding company of Saul Steinberg's Reliance Group Holdings and SC Johnson International. Mr. Coffey received his B.A. in Finance from Marquette University.

Anthony C. Green has served as Chief Corporate Officer of Annaly since January 2019 and as Chief Legal Officer and Secretary of Annaly since March 2017. Mr. Green previously served as Annaly's Deputy General Counsel from 2009 until February 2017. Prior to joining Annaly, Mr. Green was a partner in the Corporate, Securities, Mergers & Acquisitions Group at the law firm K&L Gates LLP. Mr. Green has over 20 years of experience in corporate and securities law. Mr. Green holds a B.A. in Economics and Political Science from the University of Pennsylvania and a J.D. and LL.M. in International and Comparative Law from Cornell Law School.

Employees

Annaly has been externally-managed by our Manager since July 2013. As of December 31, 2019, our Manager directly employed 175 of the 185 individuals who provide services to Annaly. The remaining 10 individuals are employed by subsidiaries of Annaly for regulatory or corporate efficiency reasons.

If the Internalization closes, we would expect all of the employees of our Manager to become our employees (either directly or indirectly).

Regulatory Requirements

We have elected, organized and operated in a manner that qualifies us to be taxed as a REIT under the Internal Revenue Code of 1986, as amended and regulations promulgated thereunder (the “Code”). So long as we qualify for taxation as a REIT, we generally will not be subject to federal income tax on our taxable income that is distributed to our stockholders. Furthermore, substantially all of our assets, other than our taxable REIT subsidiaries (“TRSs”), consists of qualified REIT real estate assets (of the type described in Section 856(c)(5) of the Code).

We regularly monitor our investments and the income from these investments and, to the extent we enter into hedging transactions, we monitor income from our hedging transactions as well, so as to ensure at all times that we maintain our qualification as a REIT and our exemption from registration under the Investment Company Act.

Arcola is a member of FINRA and 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. As a self-clearing, registered broker dealer, Arcola is required to maintain minimum net capital by FINRA. Arcola consistently operates with capital in excess of its regulatory capital requirements as defined by SEC Rule 15c3-1.

We have a subsidiary that is registered with the SEC as an investment adviser under the Investment Advisers Act. As a result, we are subject to the anti-fraud provisions of the Investment Advisers Act and to fiduciary duties derived from these provisions that apply to our relationships with that subsidiary’s clients. These provisions and duties impose restrictions and obligations on us with respect to our dealings with our subsidiary’s clients, including, for example, restrictions on agency, cross and principal transactions. Our registered investment adviser subsidiary is subject to periodic SEC examinations and other requirements under the Investment Advisers Act and related regulations primarily intended to benefit advisory clients. These additional requirements relate to, among other things, maintaining an effective and comprehensive compliance program, recordkeeping and reporting requirements and disclosure requirements.

The financial services industry is subject to extensive regulation and supervision in the U.S. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (“Dodd-Frank Act”) and the rules thereunder significantly altered the financial regulatory regime within which financial institutions operate. Other reforms have been adopted or are being considered by other regulators and policy makers worldwide. We will continue to assess our business, risk management and compliance practices to conform to developments in the regulatory environment.

Competition

We operate in a highly competitive market for investment opportunities and competition may limit our ability to acquire desirable investments in our target assets and could also affect the pricing of these investments. In acquiring our target assets, we will compete with financial institutions, institutional investors, other lenders, government entities and certain other REITs. For a full discussion of the risks associated with competition see the “Risks Related to Our Investing, Portfolio Management and Financing Activities” section in Item 1A. “Risk Factors.”

Corporate Governance

We strive to conduct our business in accordance with the highest ethical standards and in compliance with applicable governmental laws, rules and regulations. Our notable governance practices and policies include:

- Our Board is composed of a majority of independent directors, and our Audit, Compensation and Nominating/Corporate Governance Committees are composed exclusively of independent directors.
- In November 2019, we separated the roles of Chair of the Board and Chief Executive Officer, and appointed our company's first independent Chair of the Board.
- In December 2018, we amended our bylaws to declassify our Board over a three-year period with all directors standing for annual election by our company's annual meeting of stockholders in 2021.
- We have adopted an enhanced director refreshment policy, which provides that an independent director may not stand for re-election at the next annual meeting of stockholders taking place at the end of his or her term following the earlier of his or her: (i) 12th anniversary of service on our Board or (ii) 73rd birthday.
- We have adopted a Code of Business Conduct and Ethics, which sets forth the basic principles and guidelines for resolving various legal and ethical questions that may arise in the workplace and in the conduct of our business. This code is applicable to our directors, officers and employees as well as those of our Manager and subsidiaries.
- We have adopted Corporate Governance Guidelines which, in conjunction with the charters of our Board committees, provide the framework for the governance of our company.
- We have procedures by which any of our employees, including employees of our Manager as well as those of our subsidiaries, officers or directors may raise concerns confidentially about our company's conduct, accounting, internal controls or auditing matters with the Chair of the Board, the independent directors, or the chair of the Audit Committee or through our company's whistleblower phone hotline or e-mail inbox.
- We have an Insider Trading Policy that prohibits our directors, officers and employees, including employees of our Manager, as well as those of our subsidiaries from buying or selling our securities on the basis of material nonpublic information and prohibits communicating material nonpublic information about our company to others. Our Insider Trading Policy prohibits our directors, officers and employees, from (1) holding our stock in a margin account as eligible collateral, or otherwise pledging our stock as collateral for a loan, or (2) engaging in any hedging transactions with respect to our equity securities held by them.
- Our Board has instituted expansive employee stock ownership guidelines, pursuant to which more than 40% of our employees are asked to hold predetermined amounts of our company's common stock.
- On February 12, 2020, we entered into the Internalization Agreement with our Manager, pursuant to which we will transition from an externally-managed REIT to an internally-managed REIT. If the Internalization closes, we expect to achieve greater alignment of interests between management and shareholders.

Distributions

In accordance with the requirements for maintaining REIT status, we intend to distribute to stockholders aggregate dividends equaling at least 90% of our REIT taxable income (determined without regard to the deduction of dividends paid and by excluding any net capital gain) for each taxable year and will endeavor to distribute at least 100% of our REIT taxable income so as not to be subject to tax. Distributions of economic profits from our enterprise could be classified as return of capital due to differences between book and tax accounting rules. We may make additional returns of capital when the potential risk-adjusted returns from new investments fail to exceed our cost of capital. Subject to the limitations of applicable securities and state corporation laws, we can return capital by making purchases of our own capital stock or through payment of dividends.

ITEM 1. BUSINESS

Available Information

Our website is www.annaly.com. We make available on this website under “Investors - SEC Filings,” free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports as soon as reasonably practicable after we electronically file or furnish such materials to the SEC pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 (the “Securities Exchange Act”). Our website and the information contained therein are not incorporated into this annual report on Form 10-K.

Also posted on our website, and available in print upon request of any stockholder to our Investor Relations Department, are charters for our Audit Committee, Compensation Committee, Nominating/Corporate Governance Committee, Risk Committee and Corporate Responsibility Committee, our Corporate Governance Guidelines and our Code of Business Conduct and Ethics. Within the time period required by the SEC, we will post on our website any amendment to the Code of Business Conduct and Ethics and any waiver applicable to any executive officer, director or senior financial officer.

Our Investor Relations Department can be contacted at:

Annaly Capital Management, Inc.

1211 Avenue of the Americas

New York, New York 10036

Attn: Investor Relations

Telephone: 888-8ANNALY

E-mail: investor@annaly.com

The SEC also maintains a website that contains reports, proxy and information statements and other information we file with the SEC at www.sec.gov.

ITEM 1A. RISK FACTORS

An investment in our stock involves a number of risks. Before making an investment decision, you should carefully consider all of the risks described in this annual report on Form 10-K. If any of the risks discussed in this annual report on Form 10-K actually occur, our business, financial condition and results of operations could be materially adversely affected. If this were to occur, the trading price of our stock could decline significantly and you may lose all or part of your investment. Readers should not consider any descriptions of these factors to be a complete set of all potential risks that could affect us.

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Risks Related to Our Investing, Portfolio Management and Financing Activities***We may change our policies without stockholder approval.***

Our Board has established very broad investment guidelines that may be amended from time to time. Our Board and management determine all of our significant policies, including our investment, financing, capital and asset allocation and distribution policies. They may amend or revise these policies at any time without a vote of our stockholders. Policy changes could adversely affect our financial condition, results of operations, the market price of our common stock or our ability to pay dividends or distributions.

Our investment in new business strategies and new assets is inherently risky, and could disrupt our ongoing businesses.

To date, a significant portion of our total assets have consisted of Agency mortgage-backed securities which carry an implied or actual “AAA” rating. Nevertheless, pursuant to the ongoing diversification of our assets, we also acquire assets of lower credit quality.

While we remain committed to the Agency market and have grown our Agency assets, given the current environment, we believe it is prudent to diversify a portion of our investment portfolio. For example, during 2018 we began our focus on growth in our three credit businesses; such trend continued through 2019 and is expected to continue in 2020. We invest in a range of targeted asset classes and continue to explore new business strategies and assets and expect to continue to do so in the future.

Additionally, we may enter into or engage in various types of securitizations, transactions, services and other operating businesses that are different than the types into which we have traditionally entered or engaged.

Such endeavors may involve significant risks and uncertainties, including credit risk, diversion of management from current operations, expenses associated with these new investments, inadequate return of capital on our investments, less management experience in new types of assets, and unanticipated issues not discovered in our due diligence of such strategies and assets. Because these new ventures are inherently risky, no assurance can be given that such strategies will be successful and will not materially adversely affect our reputation, financial condition and operating results.

Item 1A. Risk Factors***Our strategy involves the use of leverage, which increases the risk that we may incur substantial losses.***

We expect our leverage to vary with market conditions and our assessment of risk/return on investments. We incur this leverage by borrowing against a substantial portion of the market value of our assets. Leverage, which is fundamental to our investment strategy, creates significant risks.

Because of our leverage, we may incur substantial losses if our borrowing costs increase, and we may be unable to execute our investment strategy if leverage is unavailable or is unavailable on attractive terms. The reasons our borrowing costs may increase or our ability to borrow may decline include, but are not limited to, the following:

- short-term interest rates increase;
- the market value of our investments available to collateralize borrowings decreases;
- the “haircut” applied to our assets under the repurchase agreements or other secured financing arrangements we are party to increases;
- interest rate volatility increases;
- there is a disruption in the repo market generally or the infrastructure that supports it; or
- the availability of financing in the market decreases.

Our leverage may cause margin calls and defaults and force us to sell assets under adverse market conditions.

Because of our leverage, a decline in the value of our interest earning assets may result in our lenders initiating margin calls. A margin call means that the lender requires us to pledge additional collateral to re-establish the ratio of the value of the collateral to the amount of the borrowing. Our fixed-rate mortgage-backed securities generally are more susceptible to margin calls as increases in interest rates tend to more negatively affect the market value of fixed-rate securities. Margin calls are most likely in market conditions in which the unencumbered assets that we would use to meet the margin calls have also decreased in value.

If we are unable to satisfy margin calls, our lenders may foreclose on our collateral. This could force us to sell our interest earning assets under adverse market conditions, or allow lenders to sell those assets on our behalf at prices that could be below our estimation of their value. Additionally, in the event of our bankruptcy, our borrowings, which are generally made under repurchase agreements, may qualify for special treatment under the U.S. Bankruptcy Code. This special treatment would allow the lenders under these agreements to avoid the automatic stay provisions of the U.S. Bankruptcy Code and to liquidate the collateral under these agreements without delay.

We may exceed our target leverage ratios.

We generally expect to maintain an economic leverage ratio of less than 10:1. However, we are not required to stay below this economic leverage ratio. We may exceed this ratio by incurring additional debt without increasing the amount of equity we have. For example, if we increase the amount of borrowings under our master repurchase agreements with our existing or new counterparties or the market value of our portfolio declines, our economic leverage ratio would increase. If we increase our economic leverage ratio, the adverse impact on our financial condition and results of operations from the types of risks associated with the use of leverage would likely be more severe. Our target economic leverage ratio is set for the portfolio as a whole, rather than separately for each asset type. The economic leverage ratio on Agency mortgage-backed securities may exceed the target ratio for the portfolio as a whole. Because credit assets are generally less levered than Agency mortgage-backed securities, at a given economic leverage ratio an increased allocation to credit assets generally means an increase in economic leverage on Agency mortgage-backed securities. The economic leverage on our Agency mortgage-backed securities is the primary driver of the risk of being unable to meet margin calls discussed above.

We may not be able to achieve our optimal leverage.

We use leverage as a strategy to increase the return to our investors. However, we may not be able to achieve our desired leverage for any of the following reasons:

- we determine that the leverage would expose us to excessive risk;
- our lenders do not make funding available to us at acceptable rates; or
- our lenders require that we provide additional collateral to cover our borrowings.

Failure to procure or renew funding on favorable terms, or at all, would adversely affect our results and financial condition.

One or more of our lenders could be unwilling or unable to provide us with financing. This could potentially increase our financing costs and reduce our liquidity. Furthermore, if any of our potential lenders or existing lenders is unwilling or unable to provide us

Item 1A. Risk Factors

with financing or if we are not able to renew or replace maturing borrowings, we could be forced to sell our assets at an inopportune time when prices are depressed. Our business, results of operations and financial condition may be materially adversely affected by disruptions in the financial markets. We cannot assure you, under such extreme conditions, that these markets will remain an efficient source of long-term financing for our assets. If our strategy is not viable, we will have to find alternative forms of financing for our assets, which may not be available. Further, as a REIT, we are required to distribute annually at least 90% of our REIT taxable income (subject to certain adjustments) to our stockholders and are, therefore, not able to retain significant amounts of our earnings for new investments. We cannot assure you that any, or sufficient, funding or capital will be available to us in the future on terms that are acceptable to us. If we cannot obtain sufficient funding on acceptable terms, there may be a negative impact on the market price of our common stock and our ability to make distributions to our stockholders. Moreover, our ability to grow will be dependent on our ability to procure additional funding. To the extent we are not able to raise additional funds through the issuance of additional equity or borrowings, our growth will be constrained.

Failure to effectively manage our liquidity would adversely affect our results and financial condition.

Our ability to meet cash needs depends on many factors, several of which are beyond our control. Ineffective management of liquidity levels could cause us to be unable to meet certain financial obligations. Potential conditions that could impair our liquidity include: unwillingness or inability of any of our potential lenders to provide us with or renew financing, margin calls, additional capital requirements applicable to our lenders, a disruption in the financial markets or declining confidence in our reputation or in financial markets in general. These conditions could force us to sell our assets at inopportune times or otherwise cause us to potentially revise our strategic business initiatives.

Risk management policies and procedures may not adequately identify all risks to our businesses.

We have established and maintain risk management policies and procedures designed to support our risk framework, and to identify, measure, monitor and control financial risks. Risks include market risk (interest rate, spread and prepayment), liquidity risk, credit risk and operational risk. These policies and procedures may not sufficiently identify the full range of risks that we are or may become exposed to. Any changes to business activities, including expansion of traded or illiquid products, may result in our being exposed to different risks or an increase in certain risks. Our management may have less experience in identifying and managing the risks of new business activities. Any failure to identify and mitigate financial risks could result in an adverse impact to our financial condition, business or results of operations. Additionally, as regulations and markets in which we operate continue to evolve, our risk management policies and procedures may not always keep sufficient pace with those changes.

An increase or decrease in prepayment rates may adversely affect our profitability.

The mortgage-backed securities we acquire are backed by pools of mortgage loans. We receive payments, generally, from the payments that are made on the underlying mortgage loans. We often purchase mortgage-backed securities that have a higher coupon rate than the prevailing market interest rates. In exchange for a higher coupon rate, we typically pay a premium over par value to acquire these mortgage-backed securities. In accordance with U.S. generally accepted accounting principles (“GAAP”), we amortize the premiums on our mortgage-backed securities over the expected life of the related mortgage-backed securities. If the mortgage loans securing these mortgage-backed securities prepay at a more rapid rate than anticipated, we will have to amortize our premiums on an accelerated basis that may adversely affect our profitability.

Defaults on mortgage loans underlying Agency mortgage-backed securities typically have the same effect as prepayments because of the underlying Agency guarantee.

Prepayment rates generally increase when interest rates fall and decrease when interest rates rise, but changes in prepayment rates are difficult to predict. Prepayment rates also may be affected by conditions in the housing and financial markets, general economic conditions and the relative interest rates on fixed-rate and adjustable-rate mortgage loans. We may seek to minimize prepayment risk to the extent practical, and in selecting investments we must balance prepayment risk against other risks and the potential returns of each investment. No strategy can completely insulate us from prepayment risk. We may choose to bear increased prepayment risk if we believe that the potential returns justify the risk.

Conversely, a decline in prepayment rates on our investments will reduce the amount of principal we receive and therefore reduce the amount of cash we otherwise could have reinvested in higher yielding assets at that time, which could negatively impact our future operating results.

We are subject to reinvestment risk.

Item 1A. Risk Factors

We also are subject to reinvestment risk as a result of changes in interest rates. Declines in interest rates are generally accompanied by increased prepayments of mortgage loans, which in turn results in a prepayment of the related mortgage-backed securities. An increase in prepayments could result in the reinvestment of the proceeds we receive from such prepayments into lower yielding assets.

Volatile market conditions for mortgages and mortgage-related assets as well as the broader financial markets can result in a significant contraction in liquidity for mortgages and mortgage-related assets, which may adversely affect the value of the assets in which we invest.

Our results of operations are materially affected by conditions in the markets for mortgages and mortgage-related assets, including Agency mortgage-backed securities, as well as the broader financial markets and the economy generally.

Significant adverse changes in financial market conditions can result in a deleveraging of the global financial system and the forced sale of large quantities of mortgage-related and other financial assets. Concerns over economic recession, geopolitical issues including events such as the United Kingdom's recent exit from the European Union (commonly referred to as "Brexit"), trade wars, unemployment, the availability and cost of financing, the mortgage market and a declining real estate market or prolonged government shutdown may contribute to increased volatility and diminished expectations for the economy and markets.

For example, as a result of the financial crises beginning in the summer of 2007 and through the subsequent credit and housing crisis, many traditional mortgage investors suffered severe losses in their residential mortgage portfolios and several major market participants failed or were impaired, resulting in a significant contraction in market liquidity for mortgage-related assets. This illiquidity negatively affected both the terms and availability of financing for all mortgage-related assets.

Further increased volatility and deterioration in the markets for mortgages and mortgage-related assets as well as the broader financial markets may adversely affect the performance and market value of our Agency mortgage-backed securities. If these conditions exist, institutions from which we seek financing for our investments may tighten their lending standards or become insolvent, which could make it more difficult for us to obtain financing on favorable terms or at all. Our profitability and financial condition may be adversely affected if we are unable to obtain cost-effective financing for our investments.

Competition may limit our ability to acquire desirable investments in our target assets and could also affect the pricing of these assets.

We operate in a highly competitive market for investment opportunities. Our profitability depends, in large part, on our ability to acquire our target assets at attractive prices. In acquiring our target assets, we will compete with a variety of institutional investors, including other REITs, specialty finance companies, public and private funds, government entities, commercial and investment banks, commercial finance and insurance companies and other financial institutions. Many of our competitors are substantially larger and have considerably greater financial, technical, technological, marketing and other resources than we do. Other REITs with investment objectives that overlap with ours may elect to raise significant amounts of capital, which may create additional competition for investment opportunities. Some competitors may have a lower cost of funds and access to funding sources that may not be available to us. Many of our competitors are not subject to the operating constraints associated with REIT compliance or maintenance of an exemption from the Investment Company Act. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, competition for investments in our target assets may lead to the price of such assets increasing, which may further limit our ability to generate desired returns. We cannot provide assurance that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations. Also, as a result of this competition, desirable investments in our target assets may be limited in the future and we may not be able to take advantage of attractive investment opportunities from time to time, as we can provide no assurance that we will be able to identify and make investments that are consistent with our investment objectives.

An increase in the interest payments on our borrowings relative to the interest we earn on our interest earning assets may adversely affect our profitability.

We generally earn money based upon the spread between the interest payments we earn on our interest earning assets and the interest payments we must make on our borrowings. If the interest payments on our borrowings increase relative to the interest we earn on our interest earning assets, our profitability may be adversely affected. A significant portion of our assets are longer-term, fixed-rate interest earning assets, and a significant portion of our borrowings are shorter-term, floating-rate borrowings. Periods of rising interest rates or a relatively flat or inverted yield curve could decrease or eliminate the spread between the interest payments we earn on our interest earning assets and the interest payments we must make on our borrowings.

Differences in timing of interest rate adjustments on our interest earning assets and our borrowings may adversely affect our profitability.

We rely primarily on short-term borrowings to acquire interest earning assets with long-term maturities. Some of the interest earning assets we acquire are adjustable-rate interest earning assets. This means that their interest rates may vary over time based upon changes in an objective index, such as:

- LIBOR. The rate banks charge each other for short-term Eurodollar loans.
- Treasury Rate. A monthly or weekly average yield of benchmark U.S. Treasury securities, as published by the Federal Reserve Board.
- Secured Overnight Financing Rate. A measure of the cost of borrowing cash overnight collateralized by U.S. Treasury securities, as published by the Federal Reserve Bank of New York.

These indices generally reflect short-term interest rates. The interest rates on our borrowings similarly vary with changes in an objective index. Nevertheless, the interest rates on our borrowings generally adjust more frequently than the interest rates on our adjustable-rate interest earning assets, which are also typically subject to periodic and lifetime interest rate caps. Accordingly, in a period of rising interest rates, we could experience a decrease in net income or a net loss because the interest rates on our borrowings adjust faster than the interest rates on our adjustable-rate interest earning assets.

Changes in the method pursuant to which LIBOR is determined, or a discontinuation of LIBOR, may adversely affect the value of the financial obligations to be held or issued by us that are linked to LIBOR.

LIBOR and other indices which are deemed “benchmarks” are the subject of recent national, international, and other regulatory guidance and proposals for reform. These reforms may cause such benchmarks to perform differently than in the past, or have other consequences which cannot be predicted. In particular, regulators and law enforcement agencies in the U.K. and elsewhere conducted criminal and civil investigations into whether the banks that contributed information to the British Bankers’ Association (“BBA”) in connection with the daily calculation of various LIBOR rates (“LIBOR rates”) may have been under-reporting or otherwise manipulating or attempting to manipulate LIBOR rates. A number of BBA member banks have entered into settlements with their regulators and law enforcement agencies with respect to this alleged manipulation of LIBOR rates. LIBOR rates are calculated by reference to a market for interbank lending that continues to shrink, as it is based on increasingly fewer actual transactions. This increases the subjectivity of the calculation process and increases the risk of manipulation. Actions by the regulators or law enforcement agencies, as well as ICE Benchmark Administration (the current administrator), may result in changes to the manner in which LIBOR rates are determined or the establishment of alternative reference rates. For example, on July 27, 2017, the U.K. Financial Conduct Authority announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021.

It is likely that, over time, U.S. Dollar LIBOR (“USD-LIBOR”) will be replaced by the Secured Overnight Financing Rate (“SOFR”) published by the Federal Reserve Bank of New York. The manner and timing of this shift is not known with certainty. It is possible, but unlikely, that USD-LIBOR will be used in instruments created after 2021. Global regulators are encouraging regulated institutions to make the shift earlier. For each existing LIBOR-based instrument, the manner and timing of the switch depends on the terms of the relevant contract and the specifics of future events.

SOFR is not an exact replacement for USD-LIBOR. USD-LIBOR accounts for bank credit risk, while SOFR does not. Therefore, LIBOR and SOFR are expected to behave differently at times when market participants are concerned about the financial strength of banks. Also, SOFR is an overnight rate instead of a term rate. There is currently no perfect way to create robust, forward-looking SOFR term rates. A large and liquid market in SOFR-based futures could eventually lead to the ability to calculate forward-looking SOFR term rates, but currently the SOFR-based futures market is small relative to LIBOR-based futures markets. Regulators and other members of the Alternative Reference Rates Committee (“ARRC”) have indicated that market participants should stop using USD-LIBOR now, despite the unavailability of a forward-looking SOFR term rate. However, a large majority of new issuance of floating-rate instruments, including some transactions in which we are issuer or sponsor, still reference USD-LIBOR.

Regulators and other members of the ARRC have also indicated that all instruments that reference USD-LIBOR should include robust fallbacks. The ARRC has published fallbacks for several asset types, and the International Swaps and Derivatives Association (“ISDA”) is preparing documentation to implement fallbacks for derivatives. ISDA has not yet published its documentation, and there is no certainty about what ISDA’s recommendations will be.

Switching existing financial instruments and hedging transactions from LIBOR to SOFR requires calculations of a spread. ISDA has described the spread calculation methodology that will apply to derivatives that adopt the ISDA recommendations for derivatives. The spread calculation methodology for non-derivatives is currently not known. The spread calculation is intended

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to minimize value transfer between counterparties, borrowers, and lenders, but there is no assurance that the calculated spread will be fair and accurate.

The fallbacks recommended by the ARRC are different for various non-derivative instruments, the fallbacks recommended by ARRC will likely differ from the fallbacks recommended by ISDA, and not all USD-LIBOR-based instruments will incorporate the recommended fallbacks. This could result in unexpected differences between our USD-LIBOR-based assets and our USD-LIBOR-based interest rate hedges.

Many existing USD-LIBOR-based instruments either do not contemplate the discontinuation of LIBOR, provide a fallback that in practice will make the instrument fixed-rate, or provide a fallback that one party may believe is contrary to the contractual intent. We may incur costs amending those instruments to implement fallbacks recommended by the ARRC or ISDA. We may decide not to amend, in which case we may bear the cost and risk of litigation. Some instruments, particularly consumer-facing adjustable-rate mortgages, are impractical to amend. With respect to those instruments, we may bear the cost and risk of litigation. Our lenders may be less willing to extend credit secured by assets that do not include robust fallbacks.

We and other market participants have less experience understanding and modeling SOFR-based assets and liabilities than LIBOR-based assets and liabilities, increasing the difficulty of investing, hedging, and risk management. Because the impact of USD-LIBOR cessation is dependent on unknown future facts, the language of individual contracts, and the outcome of potential future litigation, it is not currently practical for our valuation models to account for the cessation of LIBOR. We use service providers to validate the fair values of certain financial instruments. We are not aware of those service providers accounting for the cessation of LIBOR in their pricing models.

The process of transition involves operational risks. References to USD-LIBOR may be embedded in computer code or models, and we may not identify and correct all of those references. Because compounded SOFR is backward-looking rather than forward-looking, parties making or receiving USD-LIBOR-based payments may be unable to calculate payment amounts until the day that payment is due. Proposed mechanisms to solve the operational timing issue may result in a payment amount that does not fully reflect interest rates during the calculation period.

It is also possible that USD-LIBOR will continue to be published without being representative of any underlying market, meaning that some instruments would continue to be subject to the weaknesses of the LIBOR calculation process. A rate may also be published that continues to be named USD-LIBOR and therefore continues to be used for certain contracts, but is calculated pursuant to an entirely different methodology. Preparing for and addressing the cessation of USD-LIBOR cessation may require significant time and resources.

Holders of our fixed-to-floating preferred shares should refer to the relevant prospectus to understand the USD-LIBOR-cessation provisions applicable to that class. We do not currently intend to amend any classes of our fixed-to-floating preferred shares to change the existing USD-LIBOR cessation fallbacks. Each such class that is currently outstanding becomes callable at the same time it begins to pay a USD-LIBOR-based rate. Should we choose to call a class of preferred shares in order to avoid a dispute over the results of the USD-LIBOR fallbacks for that class, we may be forced to raise additional funds at an unfavorable time.

An increase in interest rates may adversely affect the market value of our interest earning assets and, therefore, also our book value.

Increases in interest rates may negatively affect the market value of our interest earning assets because in a period of rising interest rates, the value of certain interest earning assets may fall and reduce our book value. For example, our fixed-rate interest earning assets are generally negatively affected by increases in interest rates because in a period of rising rates, the coupon we earn on our fixed-rate interest earning assets would not change. Our book value would be reduced by the amount of a decline in the market value of our interest earning assets.

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We may experience declines in the market value of our assets resulting in us recording impairments, which may have an adverse effect on our results of operations and financial condition.

A decline in the market value of our mortgage-backed securities or other assets may require us to recognize an “other-than-temporary” impairment (“OTTI”) against such assets under GAAP. For a discussion of the assessment of OTTI, see the section titled “Significant Accounting Policies” in the Notes to the Consolidated Financial Statements included in Item 15. “Exhibits, Financial Statement Schedules.” The determination as to whether an OTTI exists and, if so, the amount we consider other-than-temporarily impaired is subjective, as such determinations are based on both factual and subjective information available at the time of assessment. As a result, the timing and amount of OTTI constitute material estimates that are susceptible to significant change.

The soundness of other financial institutions could adversely affect us.

Financial services institutions are interrelated as a result of trading, clearing, counterparty, borrower, or other relationships. We have exposure to many different counterparties, and routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. Many of these transactions expose us to credit or counterparty risk in the event of default of our counterparty or, in certain instances, our counterparty’s customers. Such credit risk could be heightened in respect of our European counterparties due to continuing uncertainty in the global finance market, including Brexit. There is no assurance that any such losses would not materially and adversely impact our revenues, financial condition and earnings.

Our hedging strategies may be costly, and may not hedge our risks as intended.

Our policies permit us to enter into interest rate swaps, caps and floors, interest rate swaptions, interest rate futures, and other derivative transactions to help us mitigate our interest rate and prepayment risks described above subject to maintaining our qualification as a REIT and our Investment Company Act exemption. We have used interest rate swaps and options to enter into interest rate swaps (commonly referred to as interest rate swaptions) to provide a level of protection against interest rate risks. We may also purchase or sell TBAs on Agency mortgage-backed securities, purchase or write put or call options on TBAs and invest in other types of mortgage derivatives, such as interest-only securities. No hedging strategy can protect us completely. Entering into interest rate hedging may fail to protect or could adversely affect us because, among other things: interest rate hedging can be expensive, particularly during periods of volatile interest rates; available hedges may not correspond directly with the risk for which protection is sought; and the duration of the hedge may not match the duration of the related asset or liability. The expected transition from LIBOR to alternative reference rates adds additional complication to our hedging strategies.

Our use of derivatives may expose us to counterparty and liquidity risks.

The Dodd-Frank Act, and regulations under it, have caused significant changes to the structure of the market for interest rate swaps and swaptions. These new structures change, but do not eliminate, the risks we face in our hedging activities.

Most swaps that we enter into must be cleared by a Derivatives Clearing Organization (“DCO”). DCOs are subject to regulatory oversight, use extensive risk management processes, and might receive “too big to fail” support from the government in the case of insolvency. We access the DCO through several Futures Commission Merchants (“FCMs”). For any cleared swap, we bear the credit risk of both the DCO and the relevant FCM, in the form of potential late or unrecoverable payments, potential difficulty or delay in accessing collateral that we have posted, and potential loss of any positive market value of the swap position. In the event of a default by the DCO or FCM, we also bear market risk, because the asset or liability being hedged is no longer effectively hedged.

Most swaps must be cleared through a DCO. Most swaps must be or are traded on a Swap Execution Facility. We bear additional fees for use of the DCO. We also bear fees for use of the Swap Execution Facility. We continue to bear risk of trade errors. Because the standardized swaps available on Swap Execution Facilities and cleared through DCOs are not as customizable as the swaps available before the implementation of Dodd-Frank Act, we may bear additional basis risk from hedge positions that do not exactly reflect the interest rate risk on the asset being hedged.

Futures transactions are subject to risks analogous to those of cleared swaps, except that for futures transactions we bear a higher risk that collateral we have posted is unavailable to us if the FCM defaults.

Some derivatives transactions, such as swaptions, are not currently required to be cleared through a DCO. Therefore, we bear the credit risk of the dealer with which we executed the swaption. TBA contracts and CMBX indexes are also not cleared, and we bear the credit risk of the dealer.

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Derivative transactions are subject to margin requirements. The relevant contract or clearinghouse rules dictate the method of determining the required amount of margin, the types of collateral accepted and the timing required to meet margin calls. Additionally, for cleared swaps and futures, FCMs may have the right to require more margin than the clearinghouse requires. The requirement to meet margin calls can create liquidity risks, and we bear the cost of funding the margin that we post. Also, as discussed above, we bear credit risk if a dealer, FCM, or clearinghouse is holding collateral we have posted.

Generally, we attempt to retain the ability to close out of a hedging position or create an offsetting position. However, in some cases we may not be able to do so at economically viable prices, or we may be unable to do so without consent of the counterparty. Therefore, in some situations a derivative position can be illiquid, forcing us to hold it to its maturity or scheduled termination date.

It is possible that new regulations could be issued governing the derivatives market, or that additional types of derivatives switch to being executed on Swap Execution Facilities or cleared on a DCO. Ongoing regulatory change in this area could increase costs, increase risks, and adversely affect our business and results of operations.

It may be uneconomical to "roll" our TBA dollar roll transactions or we may be unable to meet margin calls on our TBA contracts, which could negatively affect our financial condition and results of operations.

From time to time, we enter into TBAs 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 implied financing is the party that would retain all principal and interest payments accrued during the financing period. 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. Consequently, dollar roll transactions and such forward purchases of Agency securities represent a form of off-balance sheet financing and increase our "at risk" leverage.

The economic return of a TBA dollar roll generally equates to interest income on a generic TBA-eligible security less an implied financing cost, and there may be situations in which the implied financing cost exceeds the interest income, resulting in a negative carry on the position. If we roll our TBA dollar roll positions when they have a negative carry, the positions would decrease net income and amounts available for distributions to shareholders.

There may be situations in which we are unable or unwilling to roll our TBA dollar roll positions. The TBA transaction could have a negative carry or otherwise be uneconomical, we may be unable to find counterparties with whom to trade in sufficient volume, or we may be required to collateralize the TBA positions in a way that is uneconomical. Because TBA dollar rolls represent implied financing, an inability or unwillingness to roll has effects similar to any other loss of financing. If we do not roll our TBA positions prior to the settlement date, we would have to take physical delivery of the underlying securities and settle our obligations for cash. We may not have sufficient funds or alternative financing sources available to settle such obligations. Counterparties may also make margin calls as the value of a generic TBA-eligible security (and therefore the value of the TBA contract) declines. Margin calls on TBA positions or failure to roll TBA positions could have the effects described in the liquidity risks described above.

We use analytical models and data in connection with the valuation of our assets, and any incorrect, misleading or incomplete information used in connection therewith would subject us to potential risks.

Given our strategies and the complexity of the valuation of our assets, we must rely heavily on analytical models (both proprietary models developed by us and those supplied by third parties) and information and data supplied by our third party vendors and servicers. Models and data are used to value assets or potential asset purchases and also in connection with hedging our assets. When models and data prove to be incorrect, misleading or incomplete, any decisions made in reliance thereon expose us to potential risks. For example, by relying on models and data, especially valuation models, we may be induced to buy certain assets at prices that are too high, to sell certain other assets at prices that are too low or to miss favorable opportunities altogether. Similarly, any hedging based on faulty models and data may prove to be unsuccessful. Furthermore, despite our valuation validation processes our models may nevertheless prove to be incorrect.

Some of the risks of relying on analytical models and third-party data are particular to analyzing tranches from securitizations, such as commercial or residential mortgage-backed securities. These risks include, but are not limited to, the following: (i) collateral

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cash flows and/or liability structures may be incorrectly modeled in all or only certain scenarios, or may be modeled based on simplifying assumptions that lead to errors; (ii) information about collateral may be incorrect, incomplete, or misleading; (iii) collateral or bond historical performance (such as historical prepayments, defaults, cash flows, etc.) may be incorrectly reported, or subject to interpretation (e.g., different issuers may report delinquency statistics based on different definitions of what constitutes a delinquent loan); or (iv) collateral or bond information may be outdated, in which case the models may contain incorrect assumptions as to what has occurred since the date information was last updated.

Some of the analytical models used by us, such as mortgage prepayment models or mortgage default models, are predictive in nature. The use of predictive models has inherent risks. For example, such models may incorrectly forecast future behavior, leading to potential losses on a cash flow and/or a mark-to-market basis. In addition, the predictive models used by us may differ substantially from those models used by other market participants, with the result that valuations based on these predictive models may be substantially higher or lower for certain assets than actual market prices. Furthermore, since predictive models are usually constructed based on historical data supplied by third parties, the success of relying on such models may depend heavily on the accuracy and reliability of the supplied historical data and the ability of these historical models to accurately reflect future periods.

Many of the models we use include LIBOR as an input. The expected transition away from LIBOR may require changes to models, may change the underlying economic relationships being modeled, and may require the models to be run with less historical data than is currently available for LIBOR. We may incorrectly value LIBOR-based instruments because our models do not currently account for LIBOR cessation.

All valuation models rely on correct market data inputs. If incorrect market data is entered into even a well-founded valuation model, the resulting valuations will be incorrect. However, even if market data is inputted correctly, “model prices” will often differ substantially from market prices, especially for securities with complex characteristics, such as derivative instruments or structured notes.

Accounting rules related to certain of our transactions are highly complex and involve significant judgment and assumptions, and changes in accounting treatment may adversely affect our profitability and impact our financial results. Additionally, our application of GAAP may produce financial results that fluctuate from one period to another.

Accounting rules for valuations of investments, mortgage loan sales and securitizations, investment consolidations, acquisitions of real estate and other aspects of our operations are highly complex and involve significant judgment and assumptions. These complexities could lead to a delay in preparation of financial information and the delivery of this information to our stockholders. Changes in accounting interpretations or assumptions could impact our financial statements and our ability to prepare our financial statements in a timely fashion. Our inability to prepare our financial statements in a timely fashion in the future would likely adversely affect our share price significantly. The fair value at which our assets may be recorded may not be an indication of their realizable value. Ultimate realization of the value of an asset depends to a great extent on economic and other conditions. Further, fair value is only an estimate based on good faith judgment of the price at which an investment can be sold since market prices of investments can only be determined by negotiation between a willing buyer and seller. If we were to liquidate a particular asset, the realized value may be more than or less than the amount at which such asset was recorded. Accordingly, the value of our common shares could be adversely affected by our determinations regarding the fair value of our investments, whether in the applicable period or in the future. Additionally, such valuations may fluctuate over short periods of time.

We have made certain accounting elections which may result in volatility in our periodic net income, as computed in accordance with GAAP. For example, changes in fair value of certain instruments are reflected in GAAP net income (loss) while others are reflected in Other comprehensive income (loss).

We are highly dependent on information systems and third parties, and systems failures or cybersecurity incidents could significantly disrupt our business, which may, in turn, negatively affect the market price of our common stock and our ability to operate our business.

Our business is highly dependent on communications and information systems. Any failure or interruption of our systems or cyber-attacks or security breaches of our networks or systems could cause delays or other problems in our securities trading activities, including mortgage-backed securities trading activities. A disruption or breach could also lead to unauthorized access to and release, misuse, loss or destruction of our confidential information or personal or confidential information of our employees or third parties, which could lead to regulatory fines, costs of remediating the breach, reputational harm, financial losses, litigation and increased difficulty doing business with third parties that rely on us to meet their own data protection requirements. In addition, we also face the risk of operational failure, termination or capacity constraints of any of the third parties with which we do business or that facilitate our business activities, including clearing agents or other financial intermediaries we use to facilitate our securities transactions, if their respective systems experience failure, interruption, cyber-attacks, or security breaches. Certain third parties provide information needed for our financial statements that we cannot obtain or verify from other sources. If one of those third

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parties experiences a system failure or cybersecurity incident, we may not have access to that information or may not have confidence in its accuracy. We may face increased costs as we continue to evolve our cyber defenses in order to contend with changing risks. These costs and losses associated with these risks are difficult to predict and quantify, but could have a significant adverse effect on our operating results. Additionally, the legal and regulatory environment surrounding information privacy and security in the U.S. and international jurisdictions is constantly evolving. New business initiatives have increased, and may continue to increase, the extent to which we are subject to such U.S. and international information privacy and security regulations.

Computer malware, viruses, computer hacking and phishing attacks have become more prevalent in our industry and we are from time to time subject to such attempted attacks. We rely heavily on our financial, accounting and other data processing systems. Although we have not detected a material cybersecurity breach to date, other financial institutions have reported material breaches of their systems, some of which have been significant. Even with all reasonable security efforts, not every breach can be prevented or even detected. It is possible that we have experienced an undetected breach. There is no assurance that we, or the third parties that facilitate our business activities, have not or will not experience a breach. We may be held responsible if certain third parties that facilitate our business activities experience a breach. It is difficult to determine what, if any, negative impact may directly result from any specific interruption or cyber-attacks or security breaches of our networks or systems (or the networks or systems of third parties that facilitate our business activities) or any failure to maintain performance, reliability and security of our technical infrastructure, but such computer malware, viruses, and computer hacking and phishing attacks may negatively affect our operations.

Our use of non-recourse securitizations may expose us to risks which could result in losses to us.

We utilize non-recourse securitizations of our assets in mortgage loans, especially loans that we originate, when they are available. Prior to any such financing, we may seek to finance assets with relatively short-term facilities until a sufficient portfolio is accumulated. As a result, we would be subject to the risk that we would not be able to acquire, during the period that any short-term facilities are available, sufficient eligible assets to maximize the efficiency of a securitization. We also would bear the risk that we would not be able to obtain a new short-term facility or would not be able to renew any short-term facilities after they expire should we need more time to seek and acquire sufficient eligible assets for a securitization. In addition, conditions in the capital markets, including potential volatility and disruption in the capital and credit markets, may not permit a non-recourse securitization at any particular time or may make the issuance of any such securitization less attractive to us even when we do have sufficient eligible assets. While we would intend to retain the non-investment grade tranches of securitizations and, therefore, still have exposure to any assets included in such securitizations, our inability to enter into such securitizations would increase our overall exposure to risks associated with direct ownership of such assets, including the risk of default. Our inability to refinance any short-term facilities would also increase our risk because borrowings thereunder would likely be recourse to us as an entity. If we are unable to obtain and renew short-term facilities or to consummate securitizations to finance our assets on a long-term basis, we may be required to seek other forms of potentially less attractive financing or to liquidate assets at an inopportune time or price. To the extent that we are unable to obtain financing for our assets, to the extent that we retain such assets in our portfolio, our returns on investment and earnings will be negatively impacted.

Securitizations expose us to additional risks.

In a securitization structure, we convey a pool of assets to a special purpose vehicle, the issuing entity, and in turn the issuing entity issues one or more classes of non-recourse notes pursuant to the terms of an indenture. The notes are secured by the pool of assets. In exchange for the transfer of assets to the issuing entity, we receive the cash proceeds of the sale of non-recourse notes and a 100% interest in the subordinate interests of the issuing entity. The securitization of all or a portion of our commercial or residential loan portfolio might magnify our exposure to losses because any subordinate interest we retain in the issuing entity would be subordinate to the notes issued to investors and we would, therefore, absorb all of the losses sustained with respect to a securitized pool of assets before the owners of the notes experience any losses. Moreover, we cannot be assured that we will be able to access the securitization market or be able to do so at favorable rates. The inability to securitize our portfolio could adversely affect our performance and our ability to grow our business.

Counterparties may require us to enter into restrictive covenants relating to our operations that may inhibit our ability to grow our business and increase revenues.

If or when we obtain debt financing, lenders (especially in the case of credit facilities) may impose restrictions on us that would affect our ability to incur additional debt, make certain allocations or acquisitions, reduce liquidity below certain levels, make distributions to our stockholders, or redeem debt or equity securities, and may impact our flexibility to determine our operating policies and strategies. We may sell assets or reduce leverage at an inopportune time to avoid breaching these restrictions. If we fail to meet or satisfy any of these covenants, we would be in default under these agreements, and our lenders could elect to declare

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outstanding amounts due and payable, terminate their commitments, require the posting of additional collateral and enforce their interests against existing collateral. We may also be subject to cross-default and acceleration rights and, with respect to collateralized debt, the posting of additional collateral and foreclosure rights upon default. A default and resulting repayment acceleration could significantly reduce our liquidity, which could require us to sell our assets to repay amounts due and outstanding. This could also significantly harm our business, financial condition, results of operations and ability to make distributions, which could cause our share price to decline. A default could also significantly limit our financing alternatives such that we would be unable to pursue our leverage strategy, which could adversely affect our returns.

Final rules issued by the FHFA relating to captive insurance company membership in the FHLB System prohibit us from taking new advances or renewing existing advances that mature beyond February 19, 2021.

On January 12, 2016, the FHFA issued final rules (“FHFA Final Rules”) providing that captive insurance companies will no longer be eligible for membership in the FHLB System. Because our wholly-owned subsidiary Truman was admitted as a member of the FHLB of Des Moines (“FHLB Des Moines”) prior to September 2014, it is eligible under the FHFA Final Rules to remain as a member of the FHLB Des Moines through February 19, 2021. In addition, under the FHFA Final Rules, the FHLB Des Moines is permitted to allow advances that were outstanding prior to February 19, 2016 to remain outstanding until scheduled maturity, however we are not permitted to increase our existing FHLB advances. It is possible for Congress or the FHFA to change the FHFA Final Rules, but there is no assurance that they will do so. We may be forced to find alternative financing for assets currently financed with FHLB Des Moines, which could result in increased financing cost; a decreased weighted average duration of liabilities; and an increase in risks described above related to securitizations, credit facilities, and other types of borrowings. Many of the assets currently financed with FHLB Des Moines are expected to remain outstanding past the date on which advances are no longer available.

We may enter into new lines of business, acquire other companies or engage in other strategic initiatives, each of which may result in additional risks and uncertainties in our businesses.

We may pursue growth through acquisitions of other companies or other strategic initiatives. To the extent we pursue strategic investments or acquisitions, undertake other strategic initiatives or consider new lines of business, we will face numerous risks and uncertainties, including risks associated with:

- the availability of suitable opportunities;
- the level of competition from other companies that may have greater financial resources;
- our ability to assess the value, strengths, weaknesses, liabilities and potential profitability of potential acquisition opportunities accurately and negotiate acceptable terms for those opportunities;
- the required investment of capital and other resources;
- the lack of availability of financing and, if available, the terms of any financings;
- the possibility that we have insufficient expertise to engage in such activities profitably or without incurring inappropriate amounts of risk;
- the diversion of management’s attention from our core businesses;
- the potential loss of key personnel of an acquired business;
- assumption of liabilities in any acquired business;
- the disruption of our ongoing businesses;
- the increasing demands on or issues related to the combining or integrating operational and management systems and controls;
- compliance with additional regulatory requirements;
- costs associated with integrating and overseeing the operations of the new businesses;
- failure to realize the full benefits of an acquisition, including expected synergies, cost savings, or sales or growth opportunities, within the anticipated timeframe or at all; and
- post-acquisition deterioration in an acquired business that could result in lower or negative earnings contribution and/or goodwill impairment charges.

Entry into certain lines of business may subject us to new laws and regulations with which we are not familiar, or from which we are currently exempt, and may lead to increased litigation and regulatory risk. Our strategy to increase investments in a line of business, such as our middle market lending, residential credit or commercial real estate business, may lead to additional risks and uncertainties. In addition, if a new or acquired business generates insufficient revenues or if we are unable to efficiently manage our expanded operations, our results of operations will be adversely affected. Our strategic initiatives may include joint ventures, in which case we will be subject to additional risks and uncertainties in that we may be dependent upon, and subject to liability, losses or reputational damage relating to systems, controls and personnel that are not under our control.

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We have, and may in the future, sponsor, manage and serve as general partner and/or manager of new funds or investment accounts, including collateralized loan obligations (“CLO”). Such sponsorship and management of, and investment in, such funds and accounts may involve risks not otherwise present with a direct investment in such funds, and accounts’ target investments, including, for example:

- the possibility that investors in the funds/accounts might become bankrupt or otherwise be unable to meet their capital commitment obligations;
- that operating and/or management agreements of a fund/account may restrict our ability to transfer or liquidate our interest when we desire or on advantageous terms;
- that our relationships with the investors will be generally contractual in nature and may be terminated or dissolved under the terms of the agreements, or we may be removed as general partner and/or manager (with or without cause), and in such event, we may
 - not continue to manage or invest in the applicable fund/account;
- that disputes between us and the investors may result in litigation or arbitration that would increase our expenses and prevent our officers and directors from focusing their time and effort on our business and result in subjecting the investments owned by the applicable fund/account to additional risk; and
- that we may incur liability for obligations of a fund/account by reason of being its general partner or manager.

Further, in relation to our operations, we have a subsidiary that is registered with the SEC as an investment adviser under the Investment Advisers Act. As a result, we are subject to the anti-fraud provisions of the Investment Advisers Act and to fiduciary duties derived from these provisions that apply to our relationships with that subsidiary’s clients. These provisions and duties impose restrictions and obligations on us with respect to our dealings with our subsidiary’s clients, including, for example, restrictions on agency, cross and principal transactions. Our registered investment adviser subsidiary is subject to periodic SEC examinations and other requirements under the Investment Advisers Act and related regulations primarily intended to benefit advisory clients. These additional requirements relate to, among other things, maintaining an effective and comprehensive compliance program, recordkeeping and reporting requirements and disclosure requirements. The Investment Advisers Act generally grants the SEC broad administrative powers, including the power to limit or restrict an investment adviser from conducting advisory activities in the event it fails to comply with federal securities laws. Additional sanctions that may be imposed for failure to comply with applicable requirements under the Investment Advisers Act include the prohibition of individuals from associating with an investment adviser, the revocation of registrations and other censures and fines. We may in the future be required to register one or more entities as a commodity pool operator or commodity trading adviser, subjecting those entities to the regulations and oversight of the Commodity Futures Trading Commission and the National Futures Association. We may also become subject to various international regulations on the asset management industry.

Investments in MSRs may expose us to additional risks.

Our investments in MSRs may subject us to certain additional risks, including the following:

- Investments in MSRs are highly illiquid and subject to numerous restrictions on transfer and, as a result, there is risk that we would be unable to locate a willing buyer or get required approval to sell MSRs in the future should we desire to do so.
- Our rights to the excess servicing spread are subordinate to the interests of Fannie Mae, Freddie Mac and Ginnie Mae, and are subject to extinguishment. Fannie Mae and Freddie Mac each
 - require approval of the sale of excess servicing spreads pertaining to their respective MSRs. We have entered into acknowledgment agreements or subordination of interest agreements with them, which acknowledge our subordinated rights.
- Changes in minimum servicing compensation for agency loans could occur at any time and could negatively impact the value of the income derived from MSRs.

If we are not able to successfully manage these and other risks related to investing in MSRs, it may adversely affect our business, results of operations and financial condition.

Purchases and sales of Agency mortgage-backed securities by the Federal Reserve may adversely affect the price and return associated with Agency mortgage-backed securities.

The Federal Reserve owns approximately \$1.4 trillion of Agency mortgage-backed securities as of December 31, 2019. Starting in October 2017, the Federal Reserve has begun to phase out its policy of reinvesting principal payments from its holdings of

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Agency mortgage-backed securities into new Agency mortgage-backed securities purchases, therefore causing a decline in Federal Reserve security holdings over time. While it is very difficult to predict the impact of the Federal Reserve portfolio runoff on the prices and liquidity of Agency mortgage-backed securities, returns on Agency mortgage-backed securities may be adversely affected as private investors seek higher yields to purchase larger amounts of Agency mortgage-backed securities.

New laws may be passed affecting the relationship between Fannie Mae and Freddie Mac, on the one hand, and the federal government, on the other, which could adversely affect the price of, or our ability to invest in and finance Agency mortgage-backed securities.

The interest and principal payments we expect to receive on the Agency mortgage-backed securities in which we invest are guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae. Principal and interest payments on Ginnie Mae certificates are directly guaranteed by the U.S. government. Principal and interest payments relating to the securities issued by Fannie Mae and Freddie Mac are only guaranteed by each respective Agency.

In September 2008, Fannie Mae and Freddie Mac were placed into the conservatorship of the FHFA, their federal regulator, pursuant to its powers under The Federal Housing Finance Regulatory Reform Act of 2008, a part of the Housing and Economic Recovery Act of 2008. In addition to FHFA becoming the conservator of Fannie Mae and Freddie Mac, the U.S. Department of the Treasury entered into Preferred Stock Purchase Agreements with the FHFA and have taken various actions intended to provide Fannie Mae and Freddie Mac with additional liquidity in an effort to ensure their financial stability. In September 2019, FHFA and the U.S. Treasury Department agreed to modifications to the Preferred Stock Purchase Agreements that will permit Fannie Mae and Freddie Mac to maintain capital reserves of \$25 billion and \$20 billion, respectively.

Shortly after Fannie Mae and Freddie Mac were placed in federal conservatorship, the Secretary of the U.S. Treasury suggested that the guarantee payment structure of Fannie Mae and Freddie Mac in the U.S. housing finance market should be re-examined. The future roles of Fannie Mae and Freddie Mac could be significantly reduced and the nature of their guarantees could be eliminated or considerably limited relative to historical measurements. The U.S. Treasury could also stop providing credit support to Fannie Mae and Freddie Mac in the future. Any changes to the nature of the guarantees provided by Fannie Mae and Freddie Mac could redefine what constitutes an Agency mortgage-backed security and could have broad adverse market implications. If Fannie Mae or Freddie Mac was eliminated, or their structures were to change in a material manner that is not compatible with our business model, we would not be able to acquire Agency mortgage-backed securities from these entities, which could adversely affect our business operations.

The implementation of the Single Security Initiative may adversely affect our results and financial condition.

The Single Security Initiative is a joint initiative of Fannie Mae and Freddie Mac (the Enterprises), under the direction of the FHFA, the Enterprises' regulator and conservator, to develop a common security MBS issued by the Enterprises.

Our liquidity is typically reduced each month when we receive margin calls related to factor changes, and typically increased each month when we receive payment of principal and interest on Fannie Mae and Freddie Mac securities. Legacy Freddie Mac securities pay principal and interest earlier in the month than Fannie Mae and Uniform Mortgage Backed Securities ("UMBS"), meaning that legacy Freddie Mac positions reduce the period of time between meeting factor-related margin calls and receiving principal and interest. The percentage of legacy Freddie Mac positions in the market and in our portfolio will likely decrease over time as those securities are converted to UMBS or pay off.

The FHFA recently released a Request For Input regarding pooling practices and other topics relating to aligning the prepayment speeds of UMBS issued by each of the Enterprises. There is no certainty about what, if any, changes may result from the Request For Input. Some of the proposals described in the Request For Input, if implemented, could negatively impact the Agency mortgage-backed securities market and could make it more difficult for us to comply with our Investment Company Act exemption.

Risks Related To Our Credit Assets

We invest in securities in the credit risk transfer sector that are subject to mortgage credit risk.

We invest in securities in the credit risk transfer CRT sector. The CRT sector is comprised of the risk sharing transactions issued by Fannie Mae ("CAS") and Freddie Mac ("STACR"), 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 and Freddie Mac to private investors. The holder of the securities in the CRT sector has the risk that the borrowers may default on their obligations to make full and timely payments of principal and interest. Investments in securities in the CRT sector could cause us to incur losses of income from, and/or losses in market value relating to, these assets if there are defaults of principal

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and/or interest on the pool of mortgages referenced in the transaction. The holder of the CRT may also bear the risk of the default of the issuer of the security.

A prolonged economic slowdown or declining real estate values could impair the assets we may own and adversely affect our operating results.

Our non-Agency mortgage-backed securities, mortgage loans, and mortgage loans for which we own the servicing rights, along with our commercial real estate debt, preferred equity, and real estate assets may be susceptible to economic slowdowns or recessions, which could lead to financial losses in our assets and a decrease in revenues, net income and asset values.

Owners of Agency mortgage-backed securities are protected from the risk of default on the underlying mortgages by guarantees from Fannie Mae, Freddie Mac or, in the case of the Ginnie Mae, the U.S. Government. A default on those underlying mortgages exposes us to prepayment risk described above, but not a credit loss. However, we also acquire CRTs, non-Agency mortgage-backed securities and residential loans, which are backed by residential real property but, in contrast to Agency mortgage-backed securities, the principal and interest payments are not guaranteed by GSEs or the U.S. Government. Our CRT, non-Agency mortgage-backed securities and residential loan investments are therefore particularly sensitive to recessions and declining real estate values.

In the event of a default on one of our commercial mortgage loans or other commercial real estate debt or residential mortgage loans that we hold in our portfolio or a mortgage loan underlying CRT or non-Agency mortgage-backed securities in our portfolio, we bear the risk of loss as a result of the potential deficiency between the value of the collateral and the debt owed, as well as the costs and delays of foreclosure or other remedies, and the costs of maintaining and ultimately selling a property after foreclosure. Delinquencies and defaults on mortgage loans for which we own the servicing rights will adversely affect the amount of servicing fee income we receive and may result in increased servicing costs and operational risks due to the increased complexity of servicing delinquent and defaulted mortgage loans.

Geographic concentration exposes investors to greater risk of default and loss.

Repayments by borrowers and the market value of the related assets could be affected by economic conditions generally or specific to geographic areas or regions of the United States, and concentrations of mortgaged commercial and residential properties in particular geographic areas may increase the risk that adverse economic or other developments or natural or man-made disasters affecting a particular region of the country could increase the frequency and severity of losses on mortgage loans or other real estate debt secured by those properties. From time to time, regions of the United States experience significant real estate downturns when others do not. Regional economic declines or conditions in regional real estate markets could adversely affect the income from, and market value of, the mortgaged properties. In addition, local or regional economies may be adversely affected to a greater degree than other areas of the country by developments affecting industries concentrated in such area. A decline in the general economic condition in the region in which mortgaged properties securing the related mortgage loans are located would result in a decrease in consumer demand in the region, and the income from and market value of the mortgaged properties may be adversely affected.

Other regional factors – e.g., rising sea levels, earthquakes, floods, forest fires, hurricanes or changes in governmental rules or fiscal policies – also may adversely affect the mortgaged properties. Assets in certain regional areas may be more susceptible to certain hazards (such as earthquakes, widespread fires, floods or hurricanes) than properties in other parts of the country and collateral properties located in coastal states may be more susceptible to hurricanes than properties in other parts of the country. As a result, areas affected by such events often experience disruptions in travel, transportation and tourism, loss of jobs and an overall decrease in consumer activity, and often a decline in real estate-related investments. There can be no assurance that the economies in such impacted areas will recover sufficiently to support income producing real estate at pre-event levels or that the costs of the related clean-up will not have a material adverse effect on the local or national economy.

Inadequate property insurance coverage could have an adverse impact on our operating results.

Commercial and residential real estate assets may suffer casualty losses due to risks (including acts of terrorism) that are not covered by insurance or for which insurance coverage requirements have been contractually limited by the related loan documents. Moreover, if reconstruction or major repairs are required following a casualty, changes in laws that have occurred since the time of original construction may materially impair the borrower's ability to effect such reconstruction or major repairs or may materially increase the cost thereof.

There is no assurance that borrowers have maintained or will maintain the insurance required under the applicable loan documents or that such insurance will be adequate. In addition, since the residential mortgage loans generally do not require maintenance of

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terrorism insurance, we cannot assure you that any property will be covered by terrorism insurance. Therefore, damage to a collateral property caused by acts of terror may not be covered by insurance and may result in substantial losses to us.

We may incur losses when a borrower defaults on a loan and the underlying collateral value is less than the amount due.

If a borrower defaults on a non-recourse loan, we will only have recourse to the real estate-related assets collateralizing the loan. If the underlying collateral value is less than the loan amount, we may suffer a loss. Conversely, some of our loans may be unsecured or are secured only by equity interests in the borrowing entities. These loans are subject to the risk that other lenders in the capital stack may be directly secured by the real estate assets of the borrower or may otherwise have a superior right to repayment. Upon a default, those collateralized senior lenders would have priority over us with respect to the proceeds of a sale of the underlying real estate. In cases described above, we may lack control over the underlying asset collateralizing our loan or the underlying assets of the borrower before a default, and, as a result, the value of the collateral may be reduced by acts or omissions by owners or managers of the assets. In addition, the value of the underlying real estate may be adversely affected by some or all of the risks referenced above with respect to our owned real estate.

Some of our loans may be backed or supported by individual or corporate guarantees from borrowers or their affiliates that are not secured. If the guarantees are not fully or partially secured, we typically rely on financial covenants from borrowers and guarantors that are designed to require the borrower or guarantor to maintain certain levels of creditworthiness. Where we do not have recourse to specific collateral pledged to satisfy such guarantees or recourse loans, we will only have recourse as an unsecured creditor to the general assets of the borrower or guarantor, some or all of which may be pledged as collateral for other lenders. There can be no assurance that a borrower or guarantor will comply with its financial covenants, or that sufficient assets will be available to pay amounts owed to us under our loans and guarantees. As a result of these factors, we may suffer additional losses that could have a material adverse effect on our financial performance.

Upon a borrower bankruptcy, we may not have full recourse to the assets of the borrower to satisfy our loan. In addition, certain of our loans are subordinate to other debt. If a borrower defaults on our loan or on debt senior to our loan, or upon a borrower bankruptcy, our loan will be satisfied only after the senior debt holder receives payment. Where debt senior to our loan exists, the presence of intercreditor arrangements may limit our ability to amend our loan documents, assign our loans, accept prepayments, exercise our remedies (through “standstill” periods) and control decisions made in bankruptcy proceedings. Bankruptcy and borrower litigation can significantly increase collection costs and the time needed for us to acquire title to the underlying collateral (if applicable), during which time the collateral and/or a borrower’s financial condition may decline in value, causing us to suffer additional losses.

If the value of collateral underlying a loan declines or interest rates increase during the term of a loan, a borrower may not be able to obtain the necessary funds to repay our loan at maturity through refinancing because the underlying property revenue cannot satisfy the debt service coverage requirements necessary to obtain new financing. If a borrower is unable to repay our loan at maturity, we could suffer additional loss that may adversely impact our financial performance.

Our assets may become non-performing or sub-performing assets in the future, which are subject to increased risks relative to performing loans.

Our assets may in the near or the long term become non-performing or sub-performing assets, which are subject to increased risks relative to performing assets. Commercial loans and residential mortgage loans may become non-performing or sub-performing for a variety of reasons that result in the borrower being unable to meet its debt service and/or repayment obligations, such as the underlying property being too highly leveraged, the financial distress of the borrower, or in the case of a commercial loan, decreasing income generated from the underlying property. Such non-performing or sub-performing assets may require a substantial amount of workout negotiations and/or restructuring, which may involve substantial cost and divert the attention of our management from other activities and may entail, among other things, a substantial reduction in interest rate, the capitalization of interest payments and/or a substantial write-down of the principal of the loan. Even if a restructuring were successfully accomplished, the borrower may not be able or willing to maintain the restructured payments or refinance the restructured loan upon maturity.

From time to time we may find it necessary or desirable to foreclose the liens of loans we acquire or originate, and the foreclosure process may be lengthy and expensive. Borrowers may resist foreclosure actions by asserting numerous claims, counterclaims and defenses to payment against us (such as lender liability claims and defenses) even when such assertions may have no basis in fact or law, in an effort to prolong the foreclosure action and force the lender into a modification of the loan or a favorable buy-out of the borrower’s position. In some states, foreclosure actions can take several years or more to litigate. At any time prior to or during the foreclosure proceedings, the borrower may file for bankruptcy, which would have the effect of staying the foreclosure actions and further delaying the resolution of our claims. Foreclosure may create a negative public perception of the related property, resulting in a diminution of its value. Even if we are successful in foreclosing on a loan, the liquidation proceeds upon sale of the underlying real estate may not be sufficient to recover our cost basis in the loan, resulting in a loss to us. Furthermore,

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any costs or delays involved in the foreclosure of a loan or a liquidation of the underlying property will further reduce the proceeds and thus increase our loss. Any such reductions could materially and adversely affect the value of the commercial loans in which we invest.

Whether or not we have participated in the negotiation of the terms of a loan, there can be no assurance as to the adequacy of the protection of the terms of the loan, including the validity or enforceability of the loan and the maintenance of the anticipated priority and perfection of the applicable security interests. Furthermore, claims may be asserted that might interfere with enforcement of our rights. In the event of a foreclosure, we may assume direct ownership of the underlying real estate. The liquidation proceeds upon sale of that real estate may not be sufficient to recover our cost basis in the loan, resulting in a loss to us. Any costs or delays involved in the effectuation of a foreclosure of the loan or a liquidation of the underlying property will further reduce the proceeds and increase our loss.

Whole loan mortgages are also subject to “special hazard” risk (property damage caused by hazards, such as earthquakes or environmental hazards, not covered by standard property insurance policies), and to bankruptcy risk (reduction in a borrower’s mortgage debt by a bankruptcy court). In addition, claims may be assessed against us on account of our position as mortgage holder or property owner, as applicable, including responsibility for tax payments, environmental hazards and other liabilities, which could have a material adverse effect on our results of operations, financial condition and our ability to make distributions to our stockholders.

We may be required to repurchase commercial or residential mortgage loans or indemnify investors if we breach representations and warranties, which could have a negative impact on our earnings.

When we sell or securitize loans, we will be required to make customary representations and warranties about such loans to the loan purchaser. Our mortgage loan sale agreements will require us to repurchase or substitute loans in the event we breach a representation or warranty given to the loan purchaser. In addition, we may be required to repurchase loans as a result of borrower fraud or in the event of early payment default on a mortgage loan. Likewise, we may be required to repurchase or substitute loans if we breach a representation or warranty in connection with our securitizations. The remedies available to a purchaser of mortgage loans are generally broader than those available to us against the originating broker or correspondent. Further, if a purchaser enforces its remedies against us, we may not be able to enforce the remedies we have against the sellers. The repurchased loans typically can only be financed at a steep discount to their repurchase price, if at all. They are also typically sold at a significant discount to the unpaid principal balance. Significant repurchase activity could adversely affect our cash flow, results of operations, financial condition and business prospects.

Our and our third party service providers’ and servicers’ due diligence of potential assets may not reveal all of the liabilities associated with such assets and may not reveal other weaknesses in such assets, which could lead to losses.

Before acquiring a commercial or residential real estate debt asset, we will assess the strengths and weaknesses of the borrower, originator or issuer of the asset as well as other factors and characteristics that are material to the performance of the asset. In making the assessment and otherwise conducting customary due diligence, we will rely on resources available to us, including our third party service providers and servicers. This process is particularly important with respect to newly formed originators or issuers because there may be little or no information publicly available about these entities and assets. There can be no assurance that our due diligence process will uncover all relevant facts or that any asset acquisition will be successful.

When we foreclose on an asset, we may come to own and operate the property securing the loan, which would expose us to the risks inherent in that activity.

When we foreclose on a commercial or residential real estate asset, we may take title to the property securing that asset, and if we do not or cannot sell the property, we would then come to own and operate it as “real estate owned.” Owning and operating real property involves risks that are different (and in many ways more significant) than the risks faced in owning a debt instrument secured by that property. In addition, we may end up owning a property that we would not otherwise have decided to acquire directly at the price of our original investment or at all. Further, some of the properties underlying the assets we are acquiring are of a different type or class than property we have had experience operating directly, including properties such as hotels, hospitals, and skilled nursing facilities. Accordingly, we may not manage these properties as well as they might be managed by another owner, and our returns to investors could suffer. If we foreclose on and come to own property, our financial performance and returns to investors could suffer.

Item 1A. Risk Factors***Financial covenants could adversely affect our ability to conduct our business.***

The commercial mortgages on our equity properties generally contain customary negative covenants that limit our ability to further mortgage the properties, to enter into material leases or other agreements or materially modify existing leases or other agreements without lender consent, to access cash flow in certain circumstances, and to discontinue insurance coverage, among other things. With respect to the long-term, fixed rate mortgage loans secured by certain of our healthcare properties and insured by the U.S. Department of Housing and Urban Development (“HUD”), the approval of HUD is also required for certain actions. These restrictions could adversely affect operations, and our ability to pay debt obligations. In addition, in some instances guaranties given by Annaly entities as further security for these mortgage loans contain affirmative covenants to maintain a minimum net worth and liquidity.

Proposals to acquire mortgage loans by eminent domain may adversely affect the value of our assets.

Local governments have taken steps to consider how the power of eminent domain could be used to acquire residential mortgage loans and there can be no certainty whether any mortgage loans sought to be purchased will be mortgage loans held in securitization trusts and what purchase price would be paid for any such mortgage loans. Any such actions could have a material adverse effect on the market value of our mortgage-backed securities, mortgage loans and MSRs. There is also no certainty as to whether any such action without the consent of investors would face legal challenge, and, if so, the outcome of any such challenge.

Our investments in corporate loans and debt securities for middle market companies carry risks.

We invest a percentage of our assets directly in the ownership of corporate loans and debt securities for middle market companies, and we expect our investments in this space to grow in 2020. Non-investment grade or unrated loans to middle market businesses may carry more inherent risks than loans to larger, investment grade publicly traded entities. These middle market companies generally have less access to public capital markets, and generally have higher financing costs. Such companies, particularly in an economic slowdown or recession, may be in a weaker financial position, may need more capital to expand or compete, and may be unable to obtain financing from their respective private capital providers, public capital markets or from traditional sources, such as commercial banks. In an economic downturn, middle market loan obligors, which may be highly leveraged, may be unable to meet their debt service requirements. Middle market businesses may have narrower product lines, be more vulnerable to exogenous events and maintain smaller market shares than large businesses. Therefore, they may be more vulnerable to competitors’ actions and market conditions, as well as general economic downturns. Middle market businesses may have more difficulties implementing enterprise resource plans and may face greater challenges integrating acquisitions than large businesses. These businesses may also experience variations in operating results. The success of a middle market company may depend on the management talents and efforts of one or two persons or a small group of persons. The death, disability or resignation of one or more of these persons may have a material adverse impact on such middle market company and its ability to repay its obligations. A deterioration in the value of our investments in corporate loans and debt securities for middle market companies could have an adverse impact on our results of operations.

Risks Related To Commercial Real Estate Debt, Preferred Equity Investments, Net Lease Real Estate Assets and Other Equity Ownership of Real Estate Assets

The real estate assets we acquire are subject to risks particular to real property, which may adversely affect our returns from certain assets and our ability to make distributions to our stockholders.

We own assets secured by real estate and own real estate directly through direct purchases or realization or upon a default of mortgage loans. Real estate assets are subject to various risks, including:

- acts of God, including earthquakes, hurricanes, floods and other natural disasters, which may result in uninsured losses;
- acts of war or terrorism, including the consequences of terrorist attacks;
- adverse changes in national and local economic and market conditions;
- changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and ordinances;
- the potential for uninsured or under-insured property losses; and
- environmental conditions of the real estate.

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Under various U.S. federal, state and local environmental laws, ordinances and regulations, a current or previous owner of real estate (including, in certain circumstances, a secured lender that succeeds to ownership or control of a property) may become liable for the costs of removal or remediation of certain hazardous or toxic substances at, on, under or in its property.

If any of these or similar events occurs, it may reduce our return from an affected property or investment and reduce or eliminate our ability to make distributions to stockholders.

The commercial loan assets we originate and/or acquire depend on the ability of the property owner to generate net income from operating the property. Failure to do so may result in delinquency and/or foreclosure.

Commercial loans are secured by real property and are subject to risks of delinquency and foreclosure, and risks of loss that may be greater than similar risks associated with loans made on the security of single-family residential property. The ability of a borrower to repay a loan secured by an income-producing property typically is dependent primarily upon the successful operation of such property rather than upon the existence of independent income or assets of the borrower. If the income of the property is reduced, the borrower's ability to repay the loan may be impaired. The income of an income-producing property can be adversely affected by, among other things,

- changes in national, regional or local economic conditions or specific industry segments, including the credit and securitization markets;
- declines in regional or local real estate values;
- declines in regional or local rental or occupancy rates;
- increases in interest rates, real estate tax rates and other operating expenses;
- tenant mix;
- success of tenant businesses and the tenant's ability to meet their lease obligations;
- property management decisions;
- property location, condition and design;
- competition from comparable types of properties;
- changes in laws that increase operating expenses or limit rents that may be charged;
- costs of remediation and liabilities associated with environmental conditions;
- the potential for uninsured or underinsured property losses;
- changes in governmental laws and regulations, including fiscal policies, zoning ordinances and environmental legislation and the related costs of compliance;
- acts of God, terrorist attacks, social unrest and civil disturbances;
- litigation and condemnation proceedings regarding the properties; and
- bankruptcy proceedings.

In the event of any default under a loan held directly by us, we will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral and the principal and accrued interest (and other unpaid sums) under the loan, which could have a material adverse effect on our cash flow from operations and limit amounts available for distribution to our stockholders. In the event of the bankruptcy of a mortgage loan borrower, the mortgage loan to such borrower will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy (as determined by the bankruptcy court), and the lien securing the mortgage loan will be subject to the avoidance powers of the bankruptcy trustee or debtor-in-possession to the extent the lien is unenforceable under state law. Workouts and/or foreclosure of a commercial real estate loan can be an expensive and lengthy process, which could have a substantial negative effect on our anticipated return on such commercial real estate.

Commercial and non-Agency mortgage-backed securities we acquire may be subject to losses.

In general, losses on a mortgaged property securing a mortgage loan included in a securitization will be borne first by the equity holder of the property, then by the holder of a mezzanine loan or B-Note, if any, then by the "first loss" subordinated security holder generally, the "B-Piece" buyer, and then by the holder of a higher-rated security. In the event of default and the exhaustion of any equity support, mezzanine loans or B-Notes, and any classes of securities junior to those that we acquire, we may not be able to recover all of our capital in the securities we purchase. In addition, if the underlying mortgage portfolio has been overvalued by the originator, or if the values subsequently decline, less collateral is available to satisfy interest and principal payments due on the related mortgage-backed securities. The prices of lower credit quality mortgage-backed securities are generally less sensitive to interest rate changes than more highly rated mortgage-backed securities, but more sensitive to adverse economic downturns or individual issuer developments. The projection of an economic downturn, for example, could cause a decline in the price of lower credit quality mortgage-backed securities because the ability of obligors of mortgages underlying mortgage-backed securities to make principal and interest payments may be impaired. In such event, existing credit support in the securitization structure may be insufficient to protect us against loss of our principal and interest on these securities.

Item 1A. Risk Factors***Borrowers May Be Unable To Repay the Remaining Principal Balance on the Maturity Date.***

Many commercial loans are non-amortizing balloon loans that provide for substantial payments of principal due at their stated maturities. Commercial loans with substantial remaining principal balances at their stated maturity date involve greater risk than fully-amortizing loans. This is because the borrower may be unable to repay the loan at that time.

A borrower's ability to repay a mortgage loan on its stated maturity date typically will depend upon its ability either to refinance the mortgage loan or to sell the mortgaged property at a price sufficient to permit repayment. A borrower's ability to achieve either of these goals will be affected by a number of factors, including:

- the availability of, and competition for, credit for commercial real estate projects, which fluctuate over time;
- the prevailing interest rates;
- the net operating income generated by the related mortgaged properties;
- the fair market value of the related mortgaged properties;
- the borrower's equity in the related mortgaged properties;
- significant tenant rollover at the related mortgaged properties;
- the borrower's financial condition;
- the operating history and occupancy level of the related mortgaged properties;
- reductions in applicable government assistance/rent subsidy programs;
- changes in zoning or tax laws;
- changes in competition in the relevant location;
- changes in rental rates in the relevant location;
- changes in government regulation and fiscal policy;
- the state of fixed income and mortgage markets;
- the availability of credit for multi-family and commercial properties;
- prevailing general and regional economic conditions; and
- the availability of funds in the credit markets which fluctuates over time.

Whether or not losses are ultimately sustained, any delay in the collection of a balloon payment on the maturity date will likely extend the weighted average life of our investment.

The B-Notes that we originate and acquire may be subject to additional risks related to the privately negotiated structure and terms of the transaction, which may result in losses to us.

We may originate and acquire B-Notes. A B-Note is a mortgage loan interest typically (1) secured by a first mortgage on a single large commercial property or group of related properties and (2) subordinated to an A-Note secured by the same first mortgage on the same collateral. As a result, if a borrower defaults, there may not be sufficient funds remaining for B-Note holders after payment to the A-Note holders. However, because each transaction is privately negotiated, B-Notes can vary in their structural characteristics and risks. For example, the rights of holders of B-Notes to control the process following a borrower default may vary from transaction to transaction. Further, B-Notes may be secured by a single property and so reflect the risks associated with significant concentration. Significant losses related to our B-Notes would result in operating losses for us and may limit our ability to make distributions to our stockholders.

The mezzanine loan assets and other subordinate debt positions that we originate and acquire involve greater risks of loss than senior loans.

We originate and acquire mezzanine loans, which take the form of subordinated loans secured by a pledge of the ownership interests by an entity that directly or indirectly owns the property-owning entity. We also make commercial real estate preferred equity investments, which, unlike mezzanine loans, are generally not secured by a pledge of equity interests and may be less liquid investments. Although as a holder of preferred equity we may protect our position with covenants that limit the activities of the entity in which we hold an interest and protect our equity by obtaining a contractual right to control the underlying property or force a sale after an event of default, should such a default occur, we would only be able to proceed against the entity in which we hold an interest, and not the real property owned by such entity and ultimately underlying the investment. These types of subordinate debt assets involve a higher degree of risk than senior mortgage lending secured by income-producing real property, because the loan may become unsecured or unrecoverable as a result of foreclosure by the senior lender on its mortgage or the exercise of remedies by a lender holding a mezzanine loan that is senior to our subordinate debt. In the event of a bankruptcy of the entity providing the pledge of ownership interests as security for a mezzanine loan, we may not have full recourse to the assets of such entity, or the assets of the entity may not be sufficient to satisfy our mezzanine loan. If a borrower defaults on our mezzanine loan, preferred equity investment, or debt senior to our loan, or in the event of a borrower bankruptcy, our subordinate debt will be satisfied only after the senior debt. As a result, we may not recover some or all of our investment. In addition, mezzanine loans and preferred equity investments may have higher loan-to-value ratios than conventional mortgage loans, resulting in the borrower

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having less equity in the property and increasing the risk of loss of principal. Further, any subordinate debt investment may give rise to sudden liquidity needs in order for us to protect our position. Significant losses related to our mezzanine loans and/or preferred equity positions would result in operating losses for us and may limit our ability to make distributions to our stockholders.

We are subject to additional risks associated with loan participations and co-lending arrangements.

Some of our loans may be participation interests or co-lender arrangements in which we share the rights, obligations and benefits of the loan with other lenders. We may need the consent of these parties to exercise our rights under such loans, including rights with respect to amendment of loan documentation, enforcement proceedings upon a default and the institution of, and control over, foreclosure proceedings. Similarly, certain participants may be able to take actions to which we object but to which we will be bound if our participation interest represents a minority interest. We may be adversely affected by this lack of control.

Construction loans involve an increased risk of loss.

We have in the past and may in the future acquire and/or originate construction loans. If we fail to fund our entire commitment on a construction loan or if a borrower otherwise fails to complete the construction of a project, there could be adverse consequences associated with the loan, including: a loss of the value of the property securing the loan, especially if the borrower is unable to raise funds to complete it from other sources; a borrower claim against us for failure to perform under the loan documents; increased costs to the borrower that the borrower is unable to pay; a bankruptcy filing by the borrower; and abandonment by the borrower of the collateral for the loan.

If we do not have an adequate completion guarantee backed by a person or entity with sufficient creditworthiness, risks of cost overruns and non-completion of renovation of the properties underlying rehabilitation loans may result in significant losses. The renovation, refurbishment or expansion of a mortgaged property by a borrower involves risks of cost overruns and non-completion. Estimates of the costs of improvements to bring an acquired property up to standards established for the market position intended for that property may prove inaccurate. Other risks may include rehabilitation costs exceeding original estimates, possibly making a project uneconomical, environmental risks and rehabilitation and subsequent leasing of the property not being completed on schedule. If such renovation is not completed in a timely manner, or if it costs more than expected, the borrower may experience a prolonged impairment of net operating income and may not be able to make payments on our investment, which could result in significant losses.

We may experience losses if the creditworthiness of our tenants deteriorates and they are unable to meet their lease obligations.

We own properties leased to tenants and receive rents from tenants during the contracted term of such leases. Such leases include space leases and operating leases. A tenant's ability to pay rent is determined by its creditworthiness, among other factors. If a tenant's credit deteriorates, the tenant may default on its obligations under our lease and may also become bankrupt. The bankruptcy or insolvency of our tenants or other failure to pay is likely to adversely affect the income produced by our real estate assets. If a tenant defaults, we may experience delays and incur substantial costs in enforcing our rights as landlord. If a tenant files for bankruptcy, we may not be able to evict the tenant solely because of such bankruptcy or failure to pay. A court, furthermore, may authorize a tenant to reject and terminate its lease with us. In such a case, our claim against the tenant for unpaid, future rent would be subject to a statutory cap that might be substantially less than the remaining rent owed under the lease. In addition, certain amounts paid to us within 90 days prior to the tenant's bankruptcy filing could be required to be returned to the tenant's bankruptcy estate. In any event, it is highly unlikely that a bankrupt or insolvent tenant would pay in full amounts it owes us under a lease that it intends to reject. In other circumstances, where a tenant's financial condition has become impaired, we may agree to partially or wholly terminate the lease in advance of the termination date in consideration for a lease termination fee that is likely less than the total contractual rental amount. Without regard to the manner in which the lease termination occurs, we are likely to incur additional costs in the form of tenant improvements and leasing commissions in our efforts to lease the space to a new tenant.

With respect to a deterioration affecting an operating tenant of one or more of our healthcare properties, there can be no assurance that we would be able to identify suitable replacement tenants or enter into leases with new tenants on terms as favorable to us as the current leases or that we would be able to lease those properties at all. Our ability to reposition our properties with a suitable replacement tenant or operator could be significantly delayed or limited by state licensing, receivership or other laws, as well as by the Medicare and Medicaid change-of-ownership rules, and we could incur substantial additional expenses in connection with any licensing, receivership or change-of-ownership proceedings. Our ability to locate and attract suitable replacement tenants also could be impaired by the specialized healthcare uses or contractual restrictions on use of the properties, and we may be forced to spend substantial amounts to adapt the properties to other uses. If we are not successful in identifying suitable replacements on a timely basis we may be required to fund certain expenses and obligations (e.g., real estate taxes, debt costs and maintenance expenses) to preserve the value of, and avoid the imposition of liens on, our properties while they are being repositioned. In

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addition, we may incur certain obligations and liabilities, including obligations to indemnify the replacement tenant or operator, which could adversely affect our business, results of operations and financial condition.

In any of the foregoing circumstances, our financial performance could be materially adversely affected.

Lease expirations, lease defaults and lease terminations may adversely affect our revenue.

Lease expirations and lease terminations may result in reduced revenues if the lease payments received from replacement tenants are less than the lease payments received from the expiring or terminating tenants. In addition, lease defaults or lease terminations by one or more significant tenants or the failure of tenants under expiring leases to elect to renew their leases, could cause us to experience long periods of vacancy with no revenue from a facility and to incur substantial capital expenditures and/or lease concessions to obtain replacement tenants.

The real estate investments we currently own and expect to acquire will be illiquid.

Because real estate investments are relatively illiquid, our ability to adjust the portfolio promptly in response to economic or other conditions will be limited. Certain significant expenditures generally do not change in response to economic or other conditions, including: (i) debt service (if any), (ii) real estate taxes, and (iii) operating and maintenance costs. This combination of variable revenue and relatively fixed expenditures may result, under certain market conditions, in reduced earnings and could have an adverse effect on our financial condition.

We may not control the special servicing of the mortgage loans included in the commercial mortgage-backed securities in which we invest and, in such cases, the special servicer may take actions that could adversely affect our interests.

With respect to the commercial mortgage-backed securities in which we may invest, overall control over the special servicing of the related underlying mortgage loans will be held by a “directing certificate holder” or a “controlling class representative,” which is appointed by the holders of the most subordinate class of commercial mortgage-backed securities in such series. To the extent that we acquire classes of existing series of commercial mortgage-backed securities originally rated AAA, for example, we will not have the right to appoint the directing certificate holder. In connection with the servicing of the specially serviced mortgage loans, the related special servicer may, at the direction of the directing certificate holder, take actions with respect to the specially serviced mortgage loans that could adversely affect our interests.

Joint venture investments could be adversely affected by our lack of sole decision-making authority and reliance upon a co-venturer’s financial condition.

We co-invest with third parties through joint ventures. Although we generally retain control and decision-making authority in a joint venture relationship, in some circumstances (such as major decisions) we may not be permitted to exercise sole decision-making authority regarding such joint venture or the subject property. Investments in joint ventures may involve risks not present were a third party not involved, including the possibility that co-venturers might become bankrupt or otherwise fail to fund their share of required capital contributions. Additionally, our co-venturers might at any time have economic or other business interests or goals which are inconsistent with our business interests or goals, and we may in certain circumstances be liable for the actions of our co-venturers. Consequently, actions by any such co-venturer might result in subjecting properties owned by the joint venture

to additional risk, although these risks are mitigated by transaction structure and the terms and conditions of agreements governing the relationship.

Risks Related To Our Residential Credit Business

Our investments in non-Agency mortgage-backed securities (including re-performing loans (“RPL”) / non-performing loans (“NPL”) which we have acquired in recent periods) or other investment assets of lower credit quality, including our investments in seasoned re-performing and non-performing residential whole loans, involve credit risk, which could materially adversely affect our results of operations.

Our current investment strategy includes seeking growth in our residential credit business. The holder of a mortgage or mortgage-backed securities assumes the risk that the related borrowers may default on their obligations to make full and timely payments of principal and interest. Under our investment policy, we have the ability to acquire non-Agency mortgage-backed securities, residential whole loans and other investment assets of lower credit quality. In general, non-Agency mortgage-backed securities carry greater investment risk than Agency mortgage-backed securities because they are not guaranteed as to principal or interest

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by the U.S. Government, any federal agency or any federally chartered corporation. Non-investment grade, non-Agency securities tend to be less liquid, may have a higher risk of default and may be more difficult to value than investment grade bonds. Higher-than-expected rates of default and/or higher-than-expected loss severities on the mortgages underlying our non-Agency mortgage-backed securities or on our residential whole loan investments may adversely affect the value of those assets. Accordingly, defaults in the payment of principal and/or interest on our non-Agency mortgage-backed securities, residential whole loan investments and other investment assets of less-than-high credit quality would likely result in our incurring losses of income from, and/or losses in market value relating to, these assets.

We have investments in non-Agency mortgage-backed securities collateralized by non-prime loans and may also have investments collateralized by subprime mortgage loans, which, due to lower underwriting standards, are subject to increased risk of losses.

We have certain investments in non-Agency mortgage-backed securities backed by collateral pools containing mortgage loans that were originated under underwriting standards that were less strict than those used in underwriting “prime mortgage loans.” These lower standards permitted mortgage loans, often with LTV ratios in excess of 80%, to be made to borrowers having impaired credit histories, lower credit scores, higher debt-to-income ratios and/or unverified income. Difficult economic conditions, including increased interest rates and lower home prices, can result in non-prime and subprime mortgage loans having increased rates of delinquency, foreclosure, bankruptcy and loss (including such as during the credit crisis of 2007-2008 and the housing crisis that followed), and are likely to otherwise experience delinquency, foreclosure, bankruptcy and loss rates that are higher, and that may be substantially higher, than those experienced by mortgage loans underwritten in a more traditional manner. Thus, because of higher delinquency rates and losses associated with non-prime and subprime mortgage loans, the performance of our non-Agency mortgage-backed securities that are backed by these types of loans could be correspondingly adversely affected, which could materially adversely impact our results of operations, financial condition and business.

Our investments may include subordinated tranches of non-Agency mortgage-backed securities, which are subordinate in right of payment to more senior securities.

Our investments may include subordinated tranches of non-Agency mortgage-backed securities, which are subordinated classes of securities in a structure of securities collateralized by a pool of mortgage loans and, accordingly, are the first or among the first to bear the loss upon a restructuring or liquidation of the underlying collateral and the last to receive payment of interest and principal. Additionally, estimated fair values of these subordinated interests tend to be more sensitive to changes in economic conditions than more senior securities. As a result, such subordinated interests generally are not actively traded and may not be liquid investments.

We are subject to counterparty risk and may be unable to seek indemnity or require counterparties to repurchase residential whole loans if they breach representations and warranties, which could cause us to suffer losses.

When selling or securitizing mortgage loans, sellers typically make customary representations and warranties about such loans. Residential mortgage loan purchase agreements may entitle the purchaser of the loans to seek indemnity or demand repurchase or substitution of the loans in the event the seller of the loans breaches a representation or warranty given to the purchaser. There can be no assurance that a mortgage loan purchase agreement will contain appropriate representations and warranties, that we or the trust that purchases the mortgage loans would be able to enforce a contractual right to repurchase or substitution, or that the seller of the loans will remain solvent or otherwise be able to honor its obligations under its mortgage loan purchase agreements. The inability to obtain or enforce an indemnity or require repurchase of a significant number of loans could adversely affect our results of operations, financial condition and business.

Our investments in residential whole loans subject us to servicing-related risks, including those associated with foreclosure.

In connection with the acquisition and securitization of residential whole loans, we rely on unaffiliated servicing companies to service and manage the mortgages underlying our Non-Agency mortgage-backed securities and our residential whole loans. If a servicer is not vigilant in seeing that borrowers make their required monthly payments, borrowers may be less likely to make these payments, resulting in a higher frequency of default. If a servicer takes longer to liquidate non-performing mortgages, our losses related to those loans may be higher than originally anticipated.

Any failure by servicers to service these mortgages and related real estate owned (“REO”) properties could negatively impact the value of these investments and our financial performance. In addition, while we have contracted, and will continue to contract, with unaffiliated servicing companies to carry out the actual servicing of the loans we purchase together with the related MSRs

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(including all direct interface with the borrowers), we are nevertheless ultimately responsible, *vis-à-vis* the borrowers and state and federal regulators, for ensuring that the loans are serviced in accordance with the terms of the related notes and mortgages and applicable law and regulation. In light of the current regulatory environment, such exposure could be significant even though we might have contractual claims against our servicers for any failure to service the loans to the required standard.

When a residential whole loan we own is foreclosed upon, title to the underlying property would be taken by one of our subsidiaries. The foreclosure process, especially in judicial foreclosure states such as New York, Florida and New Jersey can be lengthy and expensive, and the delays and costs involved in completing a foreclosure, and then liquidating the property through sale, may materially increase any related loss. Finally, at such time as title is taken to a foreclosed property, it may require more extensive rehabilitation than we estimated at acquisition or a previously unknown environmental liability may be discovered that would require expensive and time-consuming remediation.

Challenges to the MERS® System could materially and adversely affect our business, results of operations and financial condition.

MERSCORP, Inc. is a privately held company that maintains an electronic registry, referred to as the MERS System, that tracks ownership of residential mortgage loans in the U.S., as well as the identity of the associated servicer and subservicer. Mortgage Electronic Registration Systems, Inc., or MERS, a wholly-owned subsidiary of MERSCORP, Inc., can serve as a nominee for the owner of a mortgage loan and in that role initiate foreclosures and/or become the mortgagee of record for the loan in local land records. We, or other parties with whom we contract to do business or from whom we acquire assets, may choose to use MERS as a nominee. The MERS System is widely used by participants throughout the mortgage finance industry. The MERS System allows us to foreclose on delinquent loans more efficiently than we otherwise could ourselves.

Over the last several years, there have been legal challenges disputing MERS's legal standing to initiate foreclosures and/or act as nominee in local land records.

It is possible that these challenges could negatively affect MERS's ability to serve as the mortgagee of record in some jurisdictions. In addition, where MERS is the mortgagee of record, it must execute assignments of mortgages, affidavits and other legal documents in connection with foreclosure proceedings. As a result, investigations by governmental authorities and others into a servicer's possible foreclosure process deficiencies may impact MERS. Failures by MERS to apply prudent and effective process controls and to comply with legal and other requirements in the foreclosure process could pose operational, reputational and legal risks that may materially and adversely affect our business, results of operations and financial condition.

With respect to mortgage loans we own, or which we have purchased and subsequently sold, we may be subject to liability for potential violations of truth-in-lending or other similar consumer protection laws and regulations, which could adversely impact our business and financial results.

Federal consumer protection laws and regulations regulate residential mortgage loan underwriting and originators' lending processes, standards, and disclosures to borrowers. These laws and regulations include, among others, the Consumer Financial Protection Bureau's "ability-to-repay" and "qualified mortgage" regulations. In addition, there are various other federal, state, and local laws and regulations that are intended to discourage predatory lending practices by residential mortgage loan originators. For example, the federal Home Ownership and Equity Protection Act of 1994 ("HOEPA") which was expanded under the Dodd Frank Act, prohibits inclusion of certain provisions in residential mortgage loans that have mortgage rates or origination costs in excess of prescribed levels and requires that borrowers be given certain disclosures prior to origination. Some states have enacted, or may enact, similar laws or regulations, which in some cases may impose restrictions and requirements greater than those in place under federal laws and regulations. In addition, under the anti-predatory lending laws of some states, the origination of certain residential mortgage loans, including loans that are classified as "high cost" loans under applicable law, must satisfy a net tangible benefits test with respect to the borrower. This test, as well as certain standards set forth in the "ability-to-repay" and "qualified mortgage" regulations, may be highly subjective and open to interpretation. As a result, a court may determine that a residential mortgage loan did not meet the applicable standard or test even if the originator reasonably believed such standard or test had been satisfied. Failure of residential mortgage loan originators or servicers to comply with federal consumer protection laws and regulations could subject us, as an assignee or purchaser of these loans (or as an investor in securities backed by these loans), to monetary penalties and defenses to foreclosure, including by recoupment or setoff of damages and costs, which for some violations included the sum of all finance charges and fees paid by the consumer, and could result in rescission of the affected residential mortgage loans, which could adversely impact our business and financial results.

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We may not be able to obtain or maintain the governmental licenses required to operate our Residential Credit business and we may fail to comply with various state and federal laws and regulations applicable to our business of acquiring residential mortgage loans and servicing rights.

While we are not required to obtain licenses to purchase mortgage-backed securities, the purchase of residential mortgage loans and certain business purpose mortgage loans in the secondary market may, in some circumstances, require us to maintain various state licenses. Acquiring the right to service residential mortgage loans and certain business purpose mortgage loans may also, in some circumstances, require us to maintain various state licenses even though we currently do not expect to directly engage in loan servicing ourselves. As a result, we could be delayed in conducting certain business if we were first required to obtain a state license. We cannot assure you that we will be able to obtain all of the licenses we need or that we would not experience significant delays in obtaining these licenses. Furthermore, once licenses are issued we are required to comply with various information reporting and other regulatory requirements to maintain those licenses, and there is no assurance that we will be able to satisfy those requirements or other regulatory requirements applicable to our business of acquiring mortgage loans on an ongoing basis. Our failure to obtain or maintain required licenses or our failure to comply with regulatory requirements that are applicable to our business of acquiring mortgage loans may restrict our residential credit business and investment options and could harm our business and expose us to penalties or other claims.

Risks Related to Our Relationship with Our Manager

On February 12, 2020, we entered into the Internalization Agreement with the Manager. Pursuant to the Internalization Agreement, we will acquire the equity interests of the Manager and its affiliates, which are owned by certain of our current executive officers, for a nominal cash purchase price (\$1.00), and transition from an externally-managed REIT to an internally-managed REIT. The Internalization is subject to certain closing conditions, and is expected to close during the second quarter of 2020.

The management agreement was negotiated between related parties and the terms, including fees payable, may not be as favorable to us as if it were negotiated with an unaffiliated third party.

Because the Manager is owned indirectly by members of our current management, the management agreement was developed by related parties. Although our independent directors, who are responsible for protecting our and our stockholders' interests with regard to the management agreement, had the benefit of external financial and legal advisors, they did not have the benefit of arm's-length advice from our executive officers. The terms of the management agreement, including fees payable, may not reflect the terms we may have received if it was negotiated with an unrelated third party. In addition, particularly as a result of our relationship with the ultimate owners and employees of the Manager, who are members of our current management, our directors may determine that it is in the best interests of our stockholders not to enforce, or to enforce less vigorously, our rights under the management agreement because of our desire to maintain our ongoing relationship with our Manager.

There may be conflicts of interest between us and our executive officers.

The Manager is owned indirectly by members of our current management. The ultimate owners of the Manager will be entitled to receive any profit from the management fee we pay to our Manager either in the form of distributions by our Manager or increased value of their ownership interests in the Manager. This may cause our management to have interests that conflict with our interests and those of our stockholders.

We are dependent upon the Manager who provides services to us through the management agreement and we may not find suitable replacements for our Manager if the management agreement is terminated or the Manager's key personnel are no longer available to us.

Personnel provided by the Manager is responsible for making all of our investment decisions. We believe that the successful implementation of our investment and financing strategies depend upon the experience of certain of the Manager's officers and employees. None of these individuals' continued service is guaranteed. If the management agreement is terminated or these individuals leave the Manager, the Manager or we may be unable to replace them with persons with appropriate experience, or at all, and we may not be able to execute our business plan.

The management fee is payable regardless of our performance.

The Manager receives a management fee from us that is based on a percentage of our stockholders' equity, regardless of the performance of our investment portfolio (except to the extent that performance affects our stockholders' equity). For example,

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we pay our Manager a management fee for a specific period even if we experienced a net loss during the same period. The Manager's entitlement to substantial nonperformance-based compensation may reduce its incentive to provide attractive risk-adjusted returns for our investment portfolio. This in turn could limit our ability to make distributions to our stockholders and affect the market price of our common stock.

The fee structure of the management agreement may limit the Manager's ability to retain access to its key personnel.

The management agreement does not provide the Manager with an incentive management fee that would pay the Manager additional compensation as a result of meeting or exceeding performance targets. Some of our externally managed competitors pay their managers an incentive management fee, which could enable the manager to provide additional compensation to its key personnel. Thus, the lack of an incentive fee in the management agreement may limit the ability of the Manager to provide key personnel with additional compensation for strong performance, which could adversely affect the Manager's ability to retain these key personnel. If the Manager were not able to retain any of the key personnel that will be providing services to the Manager, it would have to find replacement personnel to provide those services. Those replacement key personnel may not be able to produce the same operating results as the current key personnel.

Conflicts of interest could arise in connection with our executive officers' discharge of fiduciary duties to our stockholders.

Our current executive officers are indirect owners and employees of the Manager while continuing to be executive officers of Annaly. Our executive officers, by virtue of their positions, have fiduciary duties to our company and our stockholders. The duties of our executive officers to us and our stockholders may come into conflict with the interests of such officers in their capacities as owners or employees of the Manager. If the Manager were to manage any additional entities, our executive officers could face conflicts of interest in allocating their time among us and such additional entities.

Risks Related to Internalization

The Internalization was negotiated between the Special Committee, which is comprised solely of independent and disinterested members of our Board, and our Manager, which is affiliated with certain of our officers and directors.

The Internalization was negotiated with our Manager, which is affiliated with certain of our officers and directors. As a result, those officers and directors may have different interests than us or our stockholders. This potential conflict would not exist in the case of a transaction negotiated with unaffiliated third parties.

The Internalization may not be accretive to our stockholders.

While it is expected that the Internalization will be, in the long-term, accretive to our stockholders, there can be no assurance that this will be the case, as, among other things, we may not achieve our anticipated cost savings from the Internalization (including if we incur higher general and administrative expenses than expected). The failure of the Internalization to be accretive to our stockholders could have a material adverse effect on our business, financial condition and results of operations.

We may not manage the Internalization effectively or realize its anticipated benefits.

We may not manage the Internalization effectively. The Internalization could be a time-consuming and costly process and we may encounter potential difficulties in the integration process including, among other things:

- the inability to successfully internalize corporate management in a manner that permits us to achieve the cost savings anticipated to result from the Internalization (including if we incur higher general and administrative expenses than expected), which could result in the anticipated benefits of the Internalization not being realized in the timeframe currently anticipated or at all;
- the risk of not realizing all of the anticipated strategic, operational and financial benefits of the Internalization within the expected time frame or at all;
- potential unknown liabilities and unforeseen increased expenses, delays or regulatory conditions associated with the Internalization; and
- performance shortfalls as a result of the diversion of management's attention caused by completing the Internalization.

For all these reasons, you should be aware that it is possible that the Internalization process could result in the distraction of our management, the disruption of our ongoing business or inconsistencies in our operations, any of which could adversely affect our

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ability to achieve the anticipated benefits of the Internalization, or could otherwise materially adversely affect our business and financial results.

We depend on our key executives and other employees of our Manager. There is no guarantee that such key executives and employees will remain employed or engaged by us for any specified period of time, and will not engage in competitive activities if they cease to be employed with or engaged by us.

We depend on the key executives and employees of our Manager. It is expected that, following the consummation of the Internalization, we will continue to substantially depend on the services of these individuals. Mr. Votek intends to transition to a temporary advisory role with Annaly and to continue serving as an active member of the Board following the appointment of a permanent chief executive officer and president. Our other executive officers have entered into employment agreements with us. These agreements will become effective upon the closing of the Internalization and have been structured to incentivize our executives to stay through the end of their initial terms. Nevertheless, as is presently the case under the Management Agreement, the departure or the loss of the services of any of these individuals, or other senior management personnel or employees, following the Internalization could have a material adverse effect on our business, financial condition, results of operations and ability to effectively operate our business.

We may be exposed to risks to which we have not historically been exposed.

The Internalization will expose us to risks to which we have not historically been exposed. Pursuant to the Internalization Agreement, we will acquire the Manager, including any potential future liabilities the Manager may have, which may be unforeseen. In addition, in our current externally-managed structure, we do not directly employ a meaningful number of employees. As a result of the Internalization, we are expected to employ all of the Manager's current employees. We will assume and be responsible for all employee compensation costs following the closing of the Internalization. In addition, we will be subject to those potential liabilities that are commonly faced by employers, such as workers' disability and compensation claims, potential labor disputes and other employee-related liabilities and grievances, and we will bear the costs of the establishment and maintenance of employee benefit plans, if established. There are no assurances that, following the Internalization, these employees of our Manager will be able to provide us with the same level of services as were previously provided to us by our Manager, and there may be other unforeseen costs, expenses and difficulties associated with operating as an internally-managed company.

The Internalization does not contain any indemnities.

The Internalization Agreement does not contain any indemnification provisions or other remedies against the Manager or its owners. We will acquire the Manager, including any potential future liabilities the Manager may have, which may be unforeseen. If we were to incur any such liabilities or other unknown costs, we do not have any contractual ability to seek indemnity from the Manager or its owners.

Following the Internalization, our inability to deduct for tax purposes certain compensation paid to our executives could require us to increase our distributions to stockholders or pay entity level taxes to maintain our REIT status.

Following the Internalization, our inability to deduct for tax purposes certain compensation paid to our executives could require us to increase our distributions to stockholders or pay entity level taxes to maintain our REIT status. Section 162(m) of the Code prohibits publicly held corporations from taking a tax deduction for annual compensation in excess of \$1 million paid to any of the corporation's "covered employees." As modified by the Tax Cuts and Jobs Act of 2017 ("TCJA"), Section 162(m) provides that a publicly held corporation's covered employees include its chief executive officer, chief financial officer and the three other most highly compensated executive officers, effective for taxable years beginning January 1, 2018. In addition, the TCJA also added that once an individual becomes a covered employee after December 31, 2016, that individual will remain a covered employee for all future years including after termination or death. Compensation paid to "covered employees" in excess of the Section 162(m) deductibility limit increases our taxable income compared to fully deductible compensation and, as a result, increases the amount of dividends we must distribute to stockholders to maintain our REIT status and/or to avoid U.S. federal and state income tax, which could adversely affect our financial condition.

Risks Related to Our Taxation as a REIT

Our failure to qualify as a REIT would have adverse tax consequences.

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We believe that since 1997 we have qualified for taxation as a REIT for federal income tax purposes under Sections 856 through 860 of the Code. We plan 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 that may not be totally within our control. For example, to qualify as a REIT, at least 75% of our gross income must come from real estate sources and 95% of our gross income must come from real estate sources and certain other sources that are itemized in the REIT tax laws. Additionally, our ability to satisfy the REIT asset tests depends upon our analysis of the characterization and fair market values of our assets, some of which are not susceptible to precise determination, and for which we will not obtain independent appraisals. The proper classification of an instrument as debt or equity for U.S. federal income tax purposes may be uncertain in some circumstances, which could affect the application of the REIT asset requirements. We are also required to distribute to stockholders at least 90% of our REIT taxable income (determined without regard to the deduction for dividends paid and by excluding any net capital gain). Even a technical or inadvertent mistake could jeopardize our REIT status. Furthermore, Congress and the Internal Revenue Service (“IRS”) might make changes to the tax laws and regulations, and the courts might issue new rulings that make it more difficult or impossible for us to remain qualified as a REIT.

We also indirectly own interests in entities that have elected to be taxed as REITs under the U.S. federal income tax laws, or “Subsidiary REITs.” Subsidiary REITs are subject to the various REIT qualification requirements that are applicable to us. If any Subsidiary REIT were to fail to qualify as a REIT, then (i) that Subsidiary REIT would become subject to regular U.S. federal, state, and local corporate income tax, (ii) our interest in such Subsidiary REIT would cease to be a qualifying asset for purposes of the REIT asset tests, and (iii) it is possible that we would fail certain of the REIT asset tests, in which event we also would fail to qualify as a REIT unless we could avail ourselves of certain relief provisions. While we believe that the Subsidiary REITs have qualified as REITs under the Code, we have joined each Subsidiary REIT in filing “protective” TRS elections under Section 856(l) of the Code. We cannot assure you that such “protective” TRS elections would be effective to avoid adverse consequences to us. Moreover, even if the “protective” elections were to be effective, the Subsidiary REITs would be subject to regular corporate income tax, and we cannot assure you that we would not fail to satisfy the requirement that not more than 20% of the value of our total assets may be represented by the securities of one or more TRSs. If we fail to qualify as a REIT, we would be subject to federal income tax at regular corporate rates. Also, unless the IRS granted us relief under certain statutory provisions, we would remain disqualified as a REIT for four years following the year we first fail to qualify. If we fail to qualify as a REIT, we would have to pay significant income taxes and would therefore have less money available for investments or for distributions to our stockholders. This would likely have a significant adverse effect on the value of our equity. In addition, the tax law would no longer require us to make distributions to our stockholders.

A REIT that fails the quarterly asset tests for one or more quarters will not lose its REIT status as a result of such failure if either (i) the failure is regarded as a de minimis failure under standards set out in the Code, or (ii) the failure is greater than a de minimis failure but is attributable to reasonable cause and not willful neglect. In the case of a greater than de minimis failure, however, the REIT must pay a tax and must remedy the failure within 6 months of the close of the quarter in which the failure was identified. In addition, the Code provides relief for failures of other tests imposed as a condition of REIT qualification, as long as the failures are attributable to reasonable cause and not willful neglect. A REIT would be required to pay a penalty of \$50,000, however, in the case of each failure.

We have certain distribution requirements, which could adversely affect our ability to execute our business plan.

As a REIT, we must distribute at least 90% of our REIT taxable income (determined without regard to the deduction for dividends paid and by excluding any net capital gain). The required distribution limits the amount we have available for other business purposes, including amounts to fund our growth. Also, it is possible that because of the differences between the time we actually receive revenue or pay expenses and the period we report those items for distribution purposes, we may have to borrow funds on a short-term basis to meet the 90% distribution requirement.

To the extent that we satisfy this distribution requirement, but distribute less than 100% of our taxable income, we will be subject to federal corporate income tax on our undistributed taxable income. In addition, we will be subject to a non-deductible 4% excise tax if the actual amount that we pay out to our stockholders in a calendar year is less than a minimum amount specified under federal tax laws. We intend to make distributions to our stockholders to comply with the REIT qualification requirements of the Code.

From time to time, we may generate taxable income greater than our income for financial reporting purposes prepared in accordance with GAAP, or differences in timing between the recognition of taxable income and the actual receipt of cash may occur. For example, if we purchase Agency or non-Agency securities at a discount, we are generally required to accrete the discount into taxable income prior to receiving the cash proceeds of the accreted discount at maturity, and in some cases, potentially recognize the discount in taxable income once such amounts are reflected in our financial statements. If we do not have other funds available in these situations we could be required to (i) borrow funds on unfavorable terms, (ii) sell investments at disadvantageous prices, (iii) distribute our own stock, see below, or (iv) distribute amounts that would otherwise be invested in future acquisitions to make

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distributions sufficient to enable us to pay out enough of our taxable income to satisfy the REIT distribution requirement and to avoid the corporate income tax and 4% excise tax in a particular year. These scenarios could increase our costs or reduce our stockholders' equity. Thus, compliance with the REIT requirements may hinder our ability to grow, which could adversely affect the value of our common stock.

Conversely, from time to time, we may generate taxable income less than our income for financial reporting purposes due to GAAP and tax accounting differences or, as mentioned above, the timing between the recognition of taxable income and the actual receipt of cash. In such circumstances we may make distributions according to our business plan that are within our wherewithal from an economic or cash management perspective, but that are labeled as return of capital for tax reporting purposes as they are in excess of taxable income in that period.

Distributions to tax-exempt investors may be classified as unrelated business taxable income.

Neither ordinary nor capital gain distributions with respect to our common stock nor gain from the sale of our common stock are anticipated to constitute unrelated business taxable income to a tax-exempt investor. However, there are certain exceptions to this rule. In particular:

- part of the income and gain recognized by certain qualified employee pension trusts with respect to our common stock may be treated as unrelated business taxable income if shares of our common stock are predominantly held by qualified employee pension trusts, and we are required to rely on a special look-through rule for purposes of meeting one of the REIT ownership tests, and we are not operated in a manner to avoid treatment of such income or gain as unrelated business taxable income;
- part of the income and gain recognized by a tax-exempt investor with respect to our common stock would constitute unrelated business taxable income if the investor incurs debt in order to acquire the common stock;
- part or all of the income or gain recognized with respect to our common stock by social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts and qualified group legal services plans which are exempt from federal income taxation under the Code may be treated as unrelated business taxable income;
- to the extent that we (or a part of us, or a disregarded subsidiary of ours) are a "taxable mortgage pool," or if we hold residual interests in a real estate mortgage investment conduit or a CLO;
- a portion of the distributions paid to a tax-exempt stockholder that is allocable to excess inclusion income may be treated as unrelated business taxable income.

We may in the future choose to pay dividends in our own stock, in which case the stockholders may be required to pay income taxes in excess of the cash dividends they receive.

We may in the future distribute taxable dividends that are payable in cash or shares of our common stock at the election of each stockholder. Taxable stockholders receiving such dividends will be required to include the full amount of the dividend as ordinary income to the extent of our current and accumulated earnings and profits for U.S. federal income tax purposes. As a result, stockholders may be required to pay income taxes with respect to such dividends in excess of the cash dividends received. If a U.S. stockholder sells the stock that it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to certain non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect to all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our common stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our common stock.

Limits on ownership of our stock could have adverse consequences to you and could limit your opportunity to receive a premium on our stock.

To maintain our qualification as a REIT for federal income tax purposes, not more than 50% in value of the outstanding shares of our capital stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the federal tax laws to include certain entities). Primarily to facilitate maintenance of our qualification as a REIT for federal income tax purposes, our charter prohibits ownership, directly or by the attribution provisions of the federal tax laws, by any person of more than 9.8% of the lesser of the number or value of the issued and outstanding shares of any class of our capital. Our Board, in its sole and absolute discretion, may waive or modify the ownership limit with respect to one or more persons who would not be treated as "individuals" if it is satisfied that ownership in excess of this limit will not otherwise jeopardize our status as a REIT for federal income tax purposes.

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The ownership limit may have the effect of delaying, deferring or preventing a change in control and, therefore, could adversely affect our stockholders' ability to realize a premium over the then-prevailing market price for our common stock in connection with a change in control.

A REIT cannot invest more than 20% of its total assets in the stock or securities of one or more taxable REIT subsidiaries ("TRSs"); therefore, our TRSs cannot constitute more than 20% of our total assets.

A TRS is a corporation, other than a REIT or a qualified REIT subsidiary, in which a REIT owns stock and with which we jointly elect TRS status. The term also includes a corporate subsidiary in which the TRS owns more than a 35% interest.

A REIT may own up to 100% of the stock of one or more TRSs. A TRS may earn income that would not be qualifying income if it was earned directly by the parent REIT. Overall, at the close of any calendar quarter, no more than 20% of the value of a REIT's assets may consist of stock or securities of one or more TRSs.

The stock and securities of our TRSs are expected to represent less than 20% of the value of our total assets. Furthermore, we intend to monitor the value of our investments in the stock and securities of our TRSs to ensure compliance with the above-described limitation. We cannot assure you, however, that we will always be able to comply with the limitation so as to maintain REIT status.

TRSs are subject to tax at the regular corporate rates, are not required to distribute dividends, and the amount of dividends a TRS can pay to its parent REIT may be limited by REIT gross income tests.

A TRS must pay income tax at regular corporate rates on any income that it earns. In certain circumstances, the ability of our TRSs to deduct interest expenses for federal income tax may be limited. Such income, however, is not required to be distributed. Our TRSs will pay corporate income tax on their taxable income, and their after-tax net income will be available for distribution to us.

Moreover, the annual gross income tests that must be satisfied to ensure REIT qualification may limit the amount of dividends that we can receive from our TRSs and still maintain our REIT status. Generally, not more than 25% of our gross income can be derived from non-real estate related sources, such as dividends from a TRS. If, for any taxable year, the dividends we received from our TRSs, when added to our other items of non-real estate related income, represented more than 25% of our total gross income for the year, we could be denied REIT status, unless we were able to demonstrate, among other things, that our failure of the gross income test was due to reasonable cause and not willful neglect.

The limitations imposed by the REIT gross income tests may impede our ability to distribute assets from our TRSs to us in the form of dividends. Certain asset transfers may, therefore, have to be structured as purchase and sale transactions upon which our TRSs recognize a taxable gain.

If interest accrues on indebtedness owed by a TRS to its parent REIT at a rate in excess of a commercially reasonable rate, or if transactions between a REIT and a TRS are entered into on other than arm's-length terms, the REIT may be subject to a penalty tax.

If interest accrues on an indebtedness owed by a TRS to its parent REIT at a rate in excess of a commercially reasonable rate, the REIT is subject to tax at a rate of 100% on the excess of (i) interest payments made by a TRS to its parent REIT over (ii) the amount of interest that would have been payable had interest accrued on the indebtedness at a commercially reasonable rate. A tax at a rate of 100% is also imposed on any transaction between a TRS and its parent REIT to the extent the transaction gives rise to deductions to the TRS that are in excess of the deductions that would have been allowable had the transaction been entered into on arm's-length terms. While we will scrutinize all of our transactions with our TRSs in an effort to ensure that we do not become subject to these taxes, there is no assurance that we will be successful. We may not be able to avoid application of these taxes.

Even if we remain qualified as a REIT, we may face other tax liabilities that reduce our cash flow.

Even if we remain qualified for taxation as a REIT, we may be subject to certain federal, state and local taxes on our income and assets, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, excise taxes, state or local income, property and transfer taxes, such as mortgage recording taxes, and other taxes. In addition, in order to meet the REIT qualification requirements, prevent the recognition of certain types of non-cash income, or to avert the imposition of a 100% tax that applies to certain gains derived by a REIT from dealer property or inventory, we may hold some of our assets through our TRSs or other subsidiary corporations that will be subject to corporate level income tax at regular rates.

Complying with REIT requirements may cause us to forgo otherwise attractive opportunities.

To remain qualified as a REIT for federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts that we distribute to our stockholders and the ownership of our stock. We may be required to make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution, and may be unable to pursue investments that would be otherwise advantageous to us in order to satisfy the source-of-income or asset-diversification requirements for qualifying as a REIT. Thus, compliance with the REIT requirements may hinder our ability to make and, in certain cases, to maintain ownership of, certain attractive investments.

Complying with REIT requirements may force us to liquidate otherwise attractive investments.

To remain qualified as a REIT, we must ensure that at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, U.S. Government securities and qualified real estate assets. The remainder of our investment in securities (other than U.S. Government securities, qualified real estate assets and securities issued by a TRS) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than U.S. Government securities, qualified real estate assets and securities issued by a TRS) can consist of the securities of any one issuer, no more than 20% of the value of our total assets can be represented by securities of one or more TRSs. If we fail to comply with these requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences. As a result, we may be required to liquidate from our investment portfolio otherwise attractive investments. These actions could have the effect of reducing our income and amounts available for distribution to our stockholders.

Liquidation of assets may jeopardize our REIT qualification or create additional tax liability for us.

To remain qualified as a REIT, we must comply with requirements regarding the composition of our assets and our sources of income. If we are compelled to liquidate our investments to repay obligations to our lenders, we may be unable to comply with these requirements, ultimately jeopardizing our qualification as a REIT, or we may be subject to a 100% tax on any resultant gain if we sell assets that are treated as dealer property or inventory.

The failure of assets subject to repurchase agreements to qualify as real estate assets could adversely affect our ability to remain qualified as a REIT.

We enter into certain financing arrangements that are structured as sale and repurchase agreements pursuant to which we nominally sell certain of our assets to a counterparty and simultaneously enter into an agreement to repurchase these assets at a later date in exchange for a purchase price. Economically, these agreements are financings that are secured by the assets sold pursuant thereto. We believe that we would be treated for REIT asset and income test purposes as the owner of the assets that are the subject of any such sale and repurchase agreement notwithstanding that such agreement may transfer record ownership of the assets to the counterparty during the term of the agreement. It is possible, however, that the IRS could assert that we did not own the assets during the term of the sale and repurchase agreement, in which case we could fail to remain qualified as a REIT.

Complying with REIT requirements may limit our ability to hedge effectively and may cause us to incur tax liabilities.

The REIT provisions of the Code could substantially limit our ability to hedge our liabilities. Any income from a properly designated hedging transaction we enter into to manage risk of interest rate changes with respect to borrowings made or to be made, or ordinary obligations incurred or to be incurred, to acquire or carry real estate assets generally does not constitute "gross income" for purposes of the 75% or 95% gross income tests. To the extent that we enter into other types of hedging transactions, the income from those transactions is likely to be treated as non-qualifying income for purposes of both of the gross income tests. As a result of these rules, we may have to limit our use of advantageous hedging techniques or implement those hedges through our TRSs. This could increase the cost of our hedging activities because our TRSs would be subject to tax on gains or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear. In addition, losses in our TRSs will generally not provide any tax benefit, except for being carried forward against future taxable income in the TRSs.

The failure of a mezzanine loan or similar debt to qualify as a real estate asset could adversely affect our ability to qualify as a REIT.

Item 1A. Risk Factors

We invest in mezzanine loans and similar debt (including preferred equity investments that we treat as mezzanine loans for U.S. federal income tax purposes), for which the IRS has provided a safe harbor but not rules of substantive law. Pursuant to the safe harbor, if a mezzanine loan meets certain requirements, it will be treated by the IRS as a real estate asset for purposes of the REIT asset tests, and interest derived from the mezzanine loan will be treated as qualifying mortgage interest for purposes of the REIT 75% income test. We may acquire mezzanine loans or similar debt that do not meet all of the requirements of this safe harbor. In the event we own a mezzanine loan or similar debt that does not meet the safe harbor, the IRS could challenge such loan's treatment as a real estate asset for purposes of the REIT asset and income tests and, if such a challenge were sustained, we could fail to qualify as a REIT.

Qualifying as a REIT involves highly technical and complex provisions of the Code.

Qualification as a REIT involves the application of highly technical and complex Code provisions for which only limited judicial and administrative authorities exist. Even a technical or inadvertent violation could jeopardize our REIT qualification. Our qualification as a REIT depends on our satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis. In addition, our ability to satisfy the REIT qualification requirements depends in part on the actions of third parties over which we have no control or only limited influence, including in cases where we own an equity interest in an entity that is classified as a partnership for federal income tax purposes.

The tax on prohibited transactions will limit our ability to engage in transactions, including certain methods of structuring CMOs.

The 100% tax on prohibited transactions will limit our ability to engage in transactions, including certain methods of structuring CMOs, which would be treated as prohibited transactions for federal income tax purposes.

The term "prohibited transaction" generally includes a sale or other disposition of property (including mortgage loans, but other than foreclosure property, as discussed below) that is held primarily for sale to customers in the ordinary course of a trade or business by us or by a borrower that has issued a shared appreciation mortgage or similar debt instrument to us. We could be subject to this tax if we were to dispose of or structure CMOs in a manner that was treated as a prohibited transaction for federal income tax purposes.

We intend to conduct our operations at the REIT level so that no asset that we own (or are treated as owning) will be treated as, or as having been, held for sale to customers, and that a sale of any such asset will not be treated as having been in the ordinary course of our business. As a result, we may choose not to engage in certain transactions at the REIT level, and may limit the structures we utilize for our CMO transactions, even though the sales or structures might otherwise be beneficial to us. In addition, whether property is held "primarily for sale to customers in the ordinary course of a trade or business" depends on the particular facts and circumstances. No assurance can be given that any property that we sell will not be treated as property held for sale to customers, or that we can comply with certain safe-harbor provisions of the Code that would prevent such treatment. The 100% tax does not apply to gains from the sale of property that is held through a TRS or other taxable corporation, although such income will be subject to tax in the hands of the corporation at regular corporate rates. We intend to structure our activities to avoid the prohibited transaction tax.

Certain financing activities may subject us to U.S. federal income tax and could have negative tax consequences for our stockholders.

We may enter into securitization transactions and other financing transactions that could result in us, or a portion of our assets, being treated as a taxable mortgage pool for U.S. federal income tax purposes. If we enter into such a transaction in the future, we could be taxable at the highest corporate income tax rate on a portion of the income arising from a taxable mortgage pool, referred to as "excess inclusion income," that is allocable to the percentage of our shares held in record name by disqualified organizations (generally tax-exempt entities that are exempt from the tax on unrelated business taxable income, such as state pension plans and charitable remainder trusts and government entities). In that case, we could reduce distributions to such stockholders by the amount of tax paid by us that is attributable to such stockholder's ownership.

If we were to realize excess inclusion income, IRS guidance indicates that the excess inclusion income would be allocated among our stockholders in proportion to the dividends paid. Excess inclusion income cannot be offset by losses of a stockholder. If the stockholder is a tax-exempt entity and not a disqualified organization, then this income would be fully taxable as unrelated business taxable income under Section 512 of the Code. If the stockholder is a foreign person, it would be subject to U.S. federal income tax at the maximum tax rate and withholding will be required on this income without reduction or exemption pursuant to any otherwise applicable income tax treaty.

Item 1A. Risk Factors***The lease of qualified healthcare properties to a TRS is subject to special requirements.***

We lease certain qualified healthcare properties we acquired from MTGE Investment Corp. (“MTGE”) to a TRS, which hires a manager to manage the healthcare operations at these properties. The lease revenues from this structure are treated as rents from real property if (1) they are paid pursuant to an arms-length lease of a qualified healthcare property with a TRS and (2) the manager qualifies as an “eligible independent contractor,” as defined in the Code. If any of these conditions is not satisfied, then the rents may not be treated as revenues from real property.

Uncertainty exists with respect to the treatment of our TBAs for purposes of the REIT asset and income tests.

We purchase and sell Agency mortgage-backed securities through TBAs and recognize income or gains from the disposition of those TBAs, through dollar roll transactions or otherwise, and may continue to do so in the future. While there is no direct authority with respect to the qualification of TBAs as real estate assets or U.S. Government securities for purposes of the 75% asset test or the qualification of income or gains from dispositions of TBAs as gains from the sale of real property (including interests in real property and interests in mortgages on real property) or other qualifying income for purposes of the 75% gross income test, we treat our TBAs as qualifying assets for purposes of the REIT asset tests, and we treat income and gains from our TBAs as qualifying income for purposes of the 75% gross income test, based on an opinion of counsel substantially to the effect that (i) for purposes of the REIT asset tests, our ownership of a TBA should be treated as ownership of real estate assets, and (ii) for purposes of the 75% REIT gross income test, any gain recognized by us in connection with the settlement of our TBAs should be treated as gain from the sale or disposition of an interest in mortgages on real property. Opinions of counsel are not binding on the IRS, and no assurance can be given that the IRS will not successfully challenge the conclusions set forth in such opinions. In addition, it must be emphasized that the opinion of counsel is based on various assumptions relating to our TBAs and is conditioned upon fact-based representations and covenants made by our management regarding our TBAs. No assurance can be given that the IRS would not assert that such assets or income are not qualifying assets or income. If the IRS were to successfully challenge the opinion of counsel, we could be subject to a penalty tax or we could fail to remain qualified as a REIT if a sufficient portion of our assets consists of TBAs or a sufficient portion of our income consists of income or gains from the disposition of TBAs.

Dividends payable by REITs generally receive different tax treatment than dividend income from regular corporations.

Qualified dividend income payable to U.S. stockholders that are individuals, trusts and estates is subject to the reduced maximum tax rate applicable to capital gains. Dividends payable by REITs, however, generally are not eligible for the reduced qualified dividend rates. For taxable years beginning before January 1, 2026, non-corporate taxpayers may deduct up to 20% of certain pass-through business income, including “qualified REIT dividends” (generally, dividends received by a REIT shareholder that are not designated as capital gain dividends or qualified dividend income), subject to certain limitations, resulting in an effective maximum U.S. federal income tax rate of 29.6% on such income. Although the reduced U.S. federal income tax rate applicable to qualified dividend income does not adversely affect the taxation of REITs or dividends payable by REITs, the more favorable rates applicable to regular corporate qualified dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including our common stock. Tax rates could be changed in future legislation.

New legislation or administrative or judicial action, in each instance potentially with retroactive effect, could make it more difficult or impossible for us to remain qualified as a REIT.

The present federal income tax treatment of REITs may be modified, possibly with retroactive effect, by legislative, judicial or administrative action at any time, which could affect the federal income tax treatment of an investment in us. The federal income tax rules dealing with REITs constantly are under review by persons involved in the legislative process, the IRS and the U.S. Treasury Department, which results in statutory changes as well as frequent revisions to regulations and interpretations. Additional future revisions in federal tax laws and interpretations thereof could affect or cause us to change our investments and commitments and affect the tax considerations of an investment in us.

Risks of Ownership of Our Common Stock***The market price and trading volume of our shares of common stock may be volatile and issuances of large amounts of shares of our common stock could cause the market price of our common stock to decline.***

If we issue a significant number of shares of common stock or securities convertible into common stock in a short period of time, there could be a dilution of the existing common stock and a decrease in the market price of the common stock. During 2019, we issued 142.5 million shares of common stock, which includes 86.3 million shares of common stock issued in connection with a public offering, and 56.0 million shares of common stock issued under our at-the-market sales program, and 17.7 million shares of preferred stock, which could become convertible into common stock under limited circumstances related to a change of control of Annaly.

The market price of our shares of common stock may be highly volatile and could be subject to wide fluctuations. In addition, the trading volume in our shares of common stock may fluctuate and cause significant price variations to occur. We cannot assure you that the market price of our shares of common stock will not fluctuate or decline significantly in the future. Some of the factors that could negatively affect our share price or result in fluctuations in the price or trading volume of our shares of common stock include those set forth under “Special Note Regarding Forward-Looking Statements” as well as:

- actual or anticipated variations in our quarterly operating results or business prospects;
- changes in our earnings estimates or publication of research reports about us or the real estate industry;
- an inability to meet or exceed securities analysts’ estimates or expectations;
- increases in market interest rates;
- hedging or arbitrage trading activity in our shares of common stock;
- capital commitments;
- changes in market valuations of similar companies;
- adverse market reaction to any increased indebtedness we incur in the future;
- additions or departures of management personnel;

Item 1A. Risk Factors

- actions by institutional stockholders or activist investors;
- speculation in the press or investment community;
- changes in our distribution policy;
- government action or regulation;
- general market and economic conditions; and
- future sales of our shares of common stock or securities convertible into, or exchangeable or exercisable for, our shares of common stock.

Holders of our shares of common stock will be subject to the risk of volatile market prices and wide fluctuations in the market price of our shares of common stock. These factors may cause the market price of our shares of common stock to decline, regardless of our financial condition, results of operations, business or prospects. It is impossible to assure you that the market prices of our shares of common stock will not fall in the future.

Under our charter, we have 3,000,000,000 authorized shares of capital stock, par value of \$0.01 per share. Sales of a substantial number of shares of our common stock or other equity-related securities in the public market, or any hedging or arbitrage trading activity that may develop involving our common stock, could depress the market price of our common stock and impair our ability to raise capital through the sale of additional equity securities.

Our charter does not permit ownership of over 9.8% of our common or preferred stock and attempts to acquire our common or preferred stock in excess of the 9.8% limit are void without prior approval from our Board.

For the purpose of preserving our REIT qualification and for other reasons, our charter prohibits direct or constructive ownership by any person of more than 9.8% of the total number or value of any class of our outstanding common or preferred stock. Our charter's constructive ownership rules are complex and may cause the outstanding stock owned by a group of related individuals or entities to be deemed to be constructively owned by one individual or entity. As a result, the acquisition of less than 9.8% of the outstanding stock by an individual or entity could cause that individual or entity to own constructively in excess of 9.8% of the outstanding stock and thus be subject to our charter's ownership limit. Any attempt to own or transfer shares of our common or preferred stock in excess of the ownership limit without the consent of the Board shall be void and will result in the shares being transferred by operation of law to a charitable trust.

Provisions contained in Maryland law that are reflected in our charter and bylaws may have anti-takeover effects, potentially preventing investors from receiving a "control premium" for their shares.

Provisions contained in our charter and bylaws, as well as Maryland corporate law, may have anti-takeover effects that delay, defer or prevent a takeover attempt, which may prevent stockholders from receiving a "control premium" for their shares. For example, these provisions may defer or prevent tender offers for our common stock or purchases of large blocks of our common stock, thereby limiting the opportunities for our stockholders to receive a premium for their common stock over then-prevailing market prices. These provisions include the following:

- Ownership limit. The ownership limit in our charter limits related investors including, among other things, any voting group, from acquiring over 9.8% of our common stock or more than 9.8% of our preferred stock without the consent of our Board.
- Preferred Stock. Our charter authorizes our Board to issue preferred stock in one or more classes and to establish the preferences and rights of any class of preferred stock issued. These actions can be taken without soliciting stockholder approval.
- Maryland business combination statute. Maryland law restricts the ability of holders of more than 10% of the voting power of a corporation's shares to engage in a business combination with the corporation.
- Maryland control share acquisition statute. Maryland law limits the voting rights of "control shares" of a corporation in the event of a "control share acquisition."

Broad market fluctuations could negatively impact the market price of our shares of common stock.

The stock market has experienced extreme price and volume fluctuations that have affected the market price of many companies in industries similar or related to ours and that have been unrelated to these companies' operating performance. These broad market fluctuations could reduce the market price of our shares of common stock. Furthermore, our operating results and prospects may be below the expectations of public market analysts and investors or may be lower than those of companies with comparable market capitalizations, which could lead to a material decline in the market price of our shares of common stock.

Item 1A. Risk Factors

We have not established a minimum dividend payment level and cannot assure stockholders of our ability to pay dividends in the future.

We intend to pay quarterly dividends and to make distributions to our stockholders in amounts such that all or substantially all of our taxable income in each year (subject to certain adjustments) is distributed. This enables us to qualify for the tax benefits accorded to a REIT under the Code. We have not established a minimum dividend payment level and our ability to pay dividends may be adversely affected for the reasons described in this section. All distributions will be made at the discretion of our Board and will depend on our earnings, our financial condition, maintenance of our REIT status and such other factors as our Board may deem relevant from time to time.

Our reported GAAP financial results differ from the taxable income results that impact our dividend distribution requirements and, therefore, our GAAP results may not be an accurate indicator of future taxable income and dividend distributions.

Generally, the cumulative net income we report over the life of an asset will be the same for GAAP and tax purposes, although the timing of this income recognition over the life of the asset could be materially different. Differences exist in the accounting for GAAP net income and REIT taxable income that can lead to significant variances in the amount and timing of when income and losses are recognized under these two measures. Due to these differences, our reported GAAP financial results could materially differ from our determination of taxable income.

Regulatory Risks

Loss of Investment Company Act exemption from registration would adversely affect us.

We intend to conduct our business so as not to become regulated as an investment company under the Investment Company Act. If we were to become subject to the Investment Company Act, our ability to use leverage would be substantially reduced, and we would be unable to conduct our business as we currently conduct it.

We currently rely on the exemption from registration provided by Section 3(c)(5)(C) of the Investment Company Act. Section 3(c)(5)(C), as interpreted by the staff of the SEC, requires us to invest at least 55% of our assets in “mortgages and other liens on and interest in real estate” (“Qualifying Real Estate Assets”) and at least 80% of our assets in Qualifying Real Estate Assets plus real estate related assets. The assets that we acquire, therefore, are limited by this provision of the Investment Company Act and the rules and regulations promulgated under the Investment Company Act.

We rely on a SEC interpretation that “whole pool certificates” that are issued or guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae (“Agency Whole Pool Certificates”) are Qualifying Real Estate Assets under Section 3(c)(5)(C). This interpretation was promulgated by the SEC staff in a no-action letter over 30 years ago, was reaffirmed by the SEC in 1992 and has been commonly relied upon by mortgage REITs.

On August 31, 2011, the SEC issued a concept release titled “Companies Engaged in the Business of Acquiring Mortgages and Mortgage-Related Instruments” (SEC Release No. IC-29778). In this concept release, the SEC announced it was reviewing interpretive issues related to the Section 3(c)(5)(C) exemption. Among other things, the SEC requested comments on whether it should revisit whether Agency Whole Pool Certificates may be treated as interests in real estate (and presumably Qualifying Real Estate Assets) and whether companies, such as us, whose primary business consists of investing in Agency Whole Pool Certificates are the type of entities that Congress intended to be encompassed by the exclusion provided by Section 3(c)(5)(C). The potential outcomes of the SEC’s actions are unclear as is the SEC’s timetable for its review and actions.

If the SEC changes its views regarding which securities are Qualifying Real Estate Assets or real estate related assets, adopts a contrary interpretation with respect to Agency Whole Pool Certificates or otherwise believes we do not satisfy the exemption under Section 3(c)(5)(C), we could be required to restructure our activities or sell certain of our assets. The net effect of these factors will be to lower our net interest income. If we fail to qualify for exemption from registration as an investment company, our ability to use leverage would be substantially reduced, and we would not be able to conduct our business as described. Our business will be materially and adversely affected if we fail to qualify for this exemption.

Changes in laws or regulations governing our operations or our failure to comply with those laws or regulations may adversely affect our business.

We are subject to regulation by laws at the local, state and federal level, including securities and tax laws and financial accounting and reporting standards. These laws and regulations, as well as their interpretation, may be changed from time to time.

Accordingly, any change in these laws or regulations or the failure to comply with these laws or regulations could have a material adverse impact on our business. Certain of these laws and regulations pertain specifically to REITs.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our executive and administrative office is located at 1211 Avenue of the Americas New York, New York 10036, telephone 212-696-0100. This office is leased under a non-cancelable lease expiring September 30, 2025.

For a description of the commercial real estate properties we own as part of our investment portfolio, refer to the section titled “Schedule III – Real Estate and Accumulated Depreciation” of Item 15. “Exhibits, Financial Statement Schedules.”

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock began trading publicly on October 8, 1997 and is traded on the New York Stock Exchange under the trading symbol "NLY." As of January 31, 2020, we had 1,430,324,298 shares of common stock issued and outstanding which were held by approximately 425,000 beneficial holders. The equity compensation plan information called for by Item 201(d) of Regulation S-K is set forth in Item 12 of Part III of this Form 10-K under the heading "Equity Compensation Plan Information."

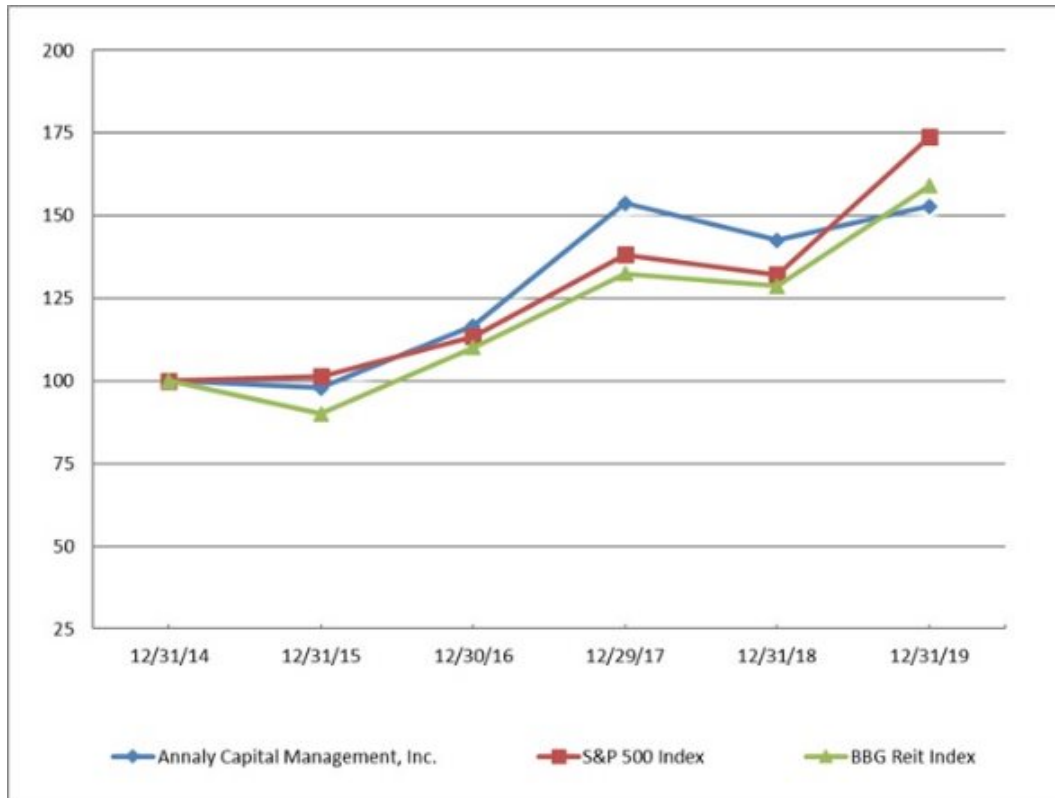
Dividends

We intend to pay quarterly dividends and to distribute to our stockholders all or substantially all of our taxable income in each year (subject to certain adjustments) consistent with the distribution requirements applicable to REITs. This will enable us to qualify for the tax benefits accorded to a REIT under the Code. We have not established a minimum dividend payment level and our ability to pay dividends may be adversely affected by factors beyond our control. In addition, unrealized changes in the estimated fair value of available-for-sale investments may have a direct effect on dividends. All distributions will be made at the discretion of our Board and will depend on our earnings, our financial condition, maintenance of our REIT status and such other factors as our Board may deem relevant from time to time. See also Item 1A. "Risk Factors." No dividends can be paid on our common stock unless we have paid full cumulative dividends on our preferred stock. From the date of issuance of our preferred stock through December 31, 2019, we have paid full cumulative dividends on our preferred stock.

Share Performance Graph

The following graph and table set forth certain information comparing the yearly percentage change in cumulative total return on our common stock to the cumulative total return of the Standard & Poor's Composite 500 stock Index or S&P 500 Index, and the Bloomberg Mortgage REIT Index, or BBG REIT index, an industry index of mortgage REITs. The comparison is for the five-year period ended December 31, 2019 and assumes the reinvestment of dividends. The graph and table assume that \$100 was invested in our common stock and the two other indices on the last trading day of the initial year shown in the graph. Upon written request we will provide stockholders with a list of the REITs included in the BBG REIT Index.

Five-Year Share Performance



	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019
Annaly Capital Management, Inc.	100	98	117	154	143	153
S&P 500 Index	100	101	113	138	132	174
BBG REIT Index	100	90	110	133	129	159

The information in the share performance graph and table has been obtained from sources believed to be reliable, but neither the accuracy nor completeness can be guaranteed. The historical information set forth above is not necessarily indicative of future performance. Accordingly, we do not make or endorse any predictions as to future share performance.

The above performance graph and related information shall not be deemed to be “soliciting material” or to be “filed” with the SEC or subject to Regulation 14A or 14C under the Securities Exchange Act or to the liabilities of Section 18 of the Securities Exchange Act, and shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act, except to the extent that we specifically incorporate it by reference into such a filing.

Share Repurchase

In June 2019, we announced that our Board authorized the repurchase of up to \$1.5 billion of our outstanding common shares through December 31, 2020. The following table sets forth information with respect to this share repurchase program for the quarter ended December 31, 2019.

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters And Issuer Purchases Of Equity Securities

	Total Number of Shares Purchased	Average Price Paid Per Share ⁽¹⁾	The Total Number of Shares Purchased as Part of a Publicly Announced Repurchase Program	Maximum Dollar Value of Shares That May Yet Be Purchased Under The Plan ⁽¹⁾
(dollars in thousands)				
October 1, 2019 - October 31, 2019	7,858,267	\$ 8.67	7,858,267	\$ 1,276,818
Total	7,858,267		7,858,267	\$ 1,276,818

⁽¹⁾ Excludes commission costs.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data should be read in conjunction with the more detailed information contained in the Consolidated Financial Statements and Notes thereto and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this Form 10-K.

SELECTED FINANCIAL DATA

	As of and for the Years Ended December 31,				
	2019	2018	2017	2016	2015
Statement of comprehensive income data					
(dollars in thousands, except per share data)					
Interest income	\$ 3,787,297	\$ 3,332,563	\$ 2,493,126	\$ 2,210,951	\$ 2,170,697
Interest expense	2,784,875	1,897,860	1,008,354	657,752	471,596
Net interest income	1,002,422	1,434,703	1,484,772	1,553,199	1,699,101
Realized and unrealized gains (losses)	(3,011,127)	(1,162,984)	199,493	84,204	(1,021,351)
Other income (loss)	136,413	109,927	115,857	44,144	(13,717)
Less: Total general and administrative expenses	301,634	329,873	224,124	250,356	200,240
Income (loss) before income taxes	(2,173,926)	51,773	1,575,998	1,431,191	463,793
Less: Income taxes	(10,835)	(2,375)	6,982	(1,595)	(1,954)
Net income (loss)	(2,163,091)	54,148	1,569,016	1,432,786	465,747
Less: Net income (loss) attributable to noncontrolling interests	(226)	(260)	(588)	(970)	(809)
Net income (loss) attributable to Annaly	(2,162,865)	54,408	1,569,604	1,433,756	466,556
Dividends on preferred stock	136,576	129,312	109,635	82,260	71,968
Net income (loss) available (related) to common stockholders	\$ (2,299,441)	\$ (74,904)	\$ 1,459,969	\$ 1,351,496	\$ 394,588
Net income (loss) per share available (related) to common stockholders					
Basic	\$ (1.60)	\$ (0.06)	\$ 1.37	\$ 1.39	\$ 0.42
Diluted	\$ (1.60)	\$ (0.06)	\$ 1.37	\$ 1.39	\$ 0.42
Weighted average number of common shares outstanding					
Basic	1,434,912,682	1,209,601,809	1,065,923,652	969,787,583	947,062,099
Diluted	1,434,912,682	1,209,601,809	1,066,351,616	970,102,353	947,276,742
Other financial data					
Total assets	\$ 130,295,081	\$ 105,787,527	\$ 101,760,050	\$ 87,905,046	\$ 75,190,893
Total equity	\$ 15,796,344	\$ 14,117,801	\$ 14,871,573	\$ 12,575,972	\$ 11,905,922
Dividends declared per common share	\$ 1.05	\$ 1.20	\$ 1.20	\$ 1.20	\$ 1.20

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Special Note Regarding Forward-Looking Statements

Certain statements contained in this annual report, and certain statements contained in our future filings with the SEC, 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; our ability to maintain our exemption from registration under the Investment Company Act; and risks and uncertainties associated with the Internalization, including but not limited to the occurrence of any event, change or other circumstances that could give rise to the termination of the Internalization Agreement; the outcome of any legal proceedings that may be instituted against the parties to the Internalization Agreement; the inability to complete the Internalization due to the failure to satisfy closing conditions or otherwise; risks that the Internalization disrupts our current plans and operations; the impact, if any, of the announcement or pendency of the Internalization on our relationships with third parties; and the amount of the costs, fees, expenses charges related to the Internalization; and the risk that the expected benefits, including long-term cost savings, of the Internalization are not achieved. 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 this annual report on Form 10-K and any subsequent quarterly reports on Form 10-Q or current reports on Form 8-K. 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.

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 7 for definitions of commonly used terms in this annual report on Form 10-K.

This section of our Form 10-K generally discusses 2019 and 2018 items and year-to-year comparisons between 2019 and 2018. Discussions of 2017 items and year-to-year comparisons between 2018 and 2017 that are not included in this Form 10-K can be found in Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our annual report on Form 10-K for the year ended December 31, 2018.

Item 7. Management's Discussion and Analysis

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Item 7. 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 optimize our returns through prudent management of our diversified investment strategies. We are a Maryland corporation founded in 1997 that has elected to be taxed as a REIT. We are externally managed by the 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" of Part I, Item 1. "Business."

Recent Developments

Interim Chief Executive Officer and Ongoing Permanent Chief Executive Officer Search

On November 20, 2019, our board of directors ("Board") appointed Glenn A. Votek, who had served as our Chief Financial Officer since 2013, as Chief Executive Officer and President, on an interim basis. It is expected that Mr. Votek, who was also elected to the Board, will serve in such roles until the appointment by the Board of a permanent chief executive officer and president. The Board is conducting a formal search for a permanent chief executive officer. Mr. Votek has indicated that, following the appointment of a permanent chief executive officer and president, he intends to transition to a temporary advisory role with Annaly and to continue serving as an active member of the Board.

Internalization

On February 12, 2020, we entered into the Internalization Agreement with our Manager and certain affiliates of our Manager. Pursuant to the Internalization Agreement, we agreed to acquire all of the outstanding equity interests of our Manager and our Manager's direct and indirect parent companies from their respective owners for a nominal cash purchase price of one dollar (\$1.00). As a result of the Internalization, our Manager will cease to perform any outside management services for us and we will become an internally-managed REIT. We anticipate that the closing will occur in the second quarter of 2020.

In connection with the Internalization, we entered into employment and severance contracts with our executive officers (other than Mr. Votek) that will become effective at the closing of the Internalization. In addition, the Management Agreement will be terminated at the closing of the Internalization, and our Manager has agreed to waive any Acceleration Fee (as defined in the Management Agreement) solely as related to the closing of the Internalization. If the closing does not occur, the Management Agreement will revert to the form it was in immediately prior to the execution of the Internalization Agreement in all respects, including with respect to the Acceleration Fee. Upon closing of the Internalization, all employees of the Manager will become employees of Annaly, Annaly will no longer pay a management fee to the Manager, and Annaly going forward will pay the compensation of all employees.

The Internalization Agreement and the related transactions and agreements were approved by the Board, with the unanimous approval of the independent directors of the Board, following the unanimous recommendation of the Special Committee. Both the Special Committee and the Manager obtained advice from separate legal and independent financial advisors. The Special Committee was also assisted by an independent compensation consultant that was retained by the Compensation Committee in connection with the employment arrangements discussed above).

The consummation of the Internalization is subject to the satisfaction or waiver of certain conditions and may not close on the terms or under the conditions described in this annual report on Form 10-K, or at all. For more information regarding the Internalization, the Internalization Agreement and the various related employment arrangement with our employees (including our senior management), please see our Current Report on Form 8-K filed with the SEC on February 12, 2020.

Business Environment

The year ended December 31, 2019 was characterized by a shift in the continued economic expansion in the United States, as uncertainties around increased trade tensions between the two largest economies in the world, the United States and China, created a drag on business confidence, in turn lowering investment activity by the corporate sector. These risks to economic growth led the Federal Reserve ("Fed") to change monetary policy by lowering the Fed Funds Target Rate by an aggregate 75 basis points between July and October 2019 and halting the runoff of its balance sheet. This effectively ended more than three years of the Fed tightening monetary policy. Following some turbulence in short-term financing markets in September, as liquidity regulations and declining bank reserve balances made sourcing of repo financing increasingly costly, the Fed also began to offer short-term repo operations and purchased Treasury bills for the first time in more than ten years to support financial markets.

Item 7. Management's Discussion and Analysis

The actions of the Fed taken to prolong the economic expansion and support repo market functioning ultimately worked well, particularly for interest rate and credit products. Financial market assets recorded some of the strongest performances in recent years, helping us to achieve a 14.1% economic return in 2019. The strong return was driven by tightening in credit spreads following the temporary weakness in the fourth quarter of 2018 as well as continued healthy economic performance supported by the Fed's accommodative actions. As investors continue to need to deploy cash in times of very low interest rates, the credit products benefit from strong investor interest, which has led to tight spreads across nearly the entire sector. Given these dynamics, we continue to remain highly selective in adding credit assets to achieve greater portfolio diversification, as we view the broader credit sector as fully valued. Meanwhile, spreads in the agency MBS sector ended 2019 relatively unchanged from the levels seen at 2018 year-end, but such a snapshot obscures a large move in spreads throughout the year. Agency MBS spreads widened meaningfully into the summer months as high supply continued to provide a major headwind to the sector. Moreover, declining interest rates led to a spike in refinancing activity, leading to a meaningful spike in prepayments during the second half of the year before ultimately declining in the winter months.

Economic Environment

The pace of economic growth slowed somewhat in 2019 relative to the prior year, with gross domestic product ("GDP") registering 2.3% growth in the U.S. economy, in turn expanding the current business cycle into the longest in U.S. history. Economic growth continued to be driven by robust personal consumption, which contributed 1.8% to the annualized GDP growth rate, to offset slowdowns primarily in the business sector, which faced headwinds from economic slowdowns in Europe and China. Moreover, an escalation in the trade dispute between the U.S. and China kept uncertainty at elevated levels for much of the year.

The Fed currently conducts monetary policy with a dual mandate: full employment and price stability. The unemployment rate declined to 3.5% in 2019, reaching the lowest level in fifty years, well below the Fed's estimate of the long-run unemployment rate of 4.2%, according to the Bureau of Labor Statistics and Federal Reserve Board. The economy added 176,000 jobs per month in 2019, somewhat below the 223,000 jobs added per month in 2018. Wage growth, as measured by the year-over-year change in private sector Average Hourly Earnings, slowed, reading 2.9% in the month of December 2019 compared to 3.3% in December 2018.

Inflation remained below the Fed's 2% target in the fourth quarter of 2019 as measured by the year-over-year changes in the Personal Consumption Expenditure Chain Price Index ("PCE"). The headline PCE measure increased by 1.6% year-over-year in December 2019. The more stable core PCE measure, which excludes volatile food and energy prices, registered a similar 1.6% year-over-year increase, somewhat below the 2.0% year-over-year growth measured in December 2018. Despite the slowdown in inflation measures in 2019, 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 second half of 2019.

In 2019, the Federal Open Market Committee ("FOMC") reduced the Fed Funds Target Rate a total of three times by 25 bps each to a range of 1.50% - 1.75% given the aforementioned disappointing economic growth overseas, a slowdown in the manufacturing sector growth, and increased downside risks to the U.S. economy. The interest rate cuts are expected to boost inflation and support the U.S. economic expansion. Going forward, market participants expect the FOMC to hold the Fed Funds Target Rate unchanged over the course of 2020 as FOMC members have expressed confidence in the outlook, while remaining vigilant to downside risks to economic growth or inflation.

During the year ended December 31, 2019, the 10-year U.S. Treasury rate rallied 116 bps in the first eight months as a combination of slowing global economic growth, particularly in the manufacturing sector, and heightened uncertainties around trade led to strong demand for interest rate products. Following the aggregate 75 bps in Fed Funds Target Rate cuts by the Federal Reserve, sentiment ultimately improved in the fourth quarter, leading interest rates to sell off a portion of the rally over the first part of the year. The mortgage basis, or the spread between the 30-year Agency mortgage-backed security coupon and 10-year U.S. Treasury rate, had a volatile year, rising meaningfully through much of the period of declining interest rates amid higher volatility and increased mortgage prepayments before ultimately declining on improved risk sentiment and the relative value offered by mortgages compared to other products.

The following table below presents interest rates and spreads at each date presented:

Item 7. Management's Discussion and Analysis

	As of December 31,		
	2019	2018	2017
30-Year mortgage current coupon	2.71%	3.50%	3.00%
Mortgage basis	79 bps	82 bps	59 bps
10-Year U.S. Treasury rate	1.92%	2.68%	2.41%
LIBOR			
1-Month	1.76%	2.50%	1.56%
6-Month	1.91%	2.88%	1.84%

London Interbank Offered Rate ("LIBOR") Transition

We have established a cross-functional LIBOR transition committee to determine our transition plan and facilitate an orderly transition to alternative reference rates. Our plan includes steps to evaluate exposure, review contracts, assess impact to our business, processes and technology and define a communication strategy with shareholders, regulators and other stakeholders. The committee also continues to engage with industry working groups and other market participants regarding the transition. See "Risks Related to Our Investing, Portfolio Management and Financing Activities-Changes in the method pursuant to which LIBOR is determined, or a discontinuation of LIBOR, may adversely affect the value of the financial obligations to be held or issued by us that are linked to LIBOR."

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".

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.

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 years ended December 31, 2019, 2018 and 2017.

	As of and for the Years Ended December 31,		
	2019	2018	2017
(dollars in thousands, except per share data)			
Interest income	\$ 3,787,297	\$ 3,332,563	\$ 2,493,126
Interest expense	2,784,875	1,897,860	1,008,354
Net interest income	1,002,422	1,434,703	1,484,772
Realized and unrealized gains (losses)	(3,011,127)	(1,162,984)	199,493
Other income (loss)	136,413	109,927	115,857
Less: Total general and administrative expenses	301,634	329,873	224,124
Income (loss) before income taxes	(2,173,926)	51,773	1,575,998
Income taxes	(10,835)	(2,375)	6,982
Net income (loss)	(2,163,091)	54,148	1,569,016
Less: Net income (loss) attributable to noncontrolling interests	(226)	(260)	(588)
Net income (loss) attributable to Annaly	(2,162,865)	54,408	1,569,604
Less: Dividends on preferred stock	136,576	129,312	109,635
Net income (loss) available (related) to common stockholders	\$ (2,299,441)	\$ (74,904)	\$ 1,459,969
Net income (loss) per share available (related) to common stockholders			
Basic	\$ (1.60)	\$ (0.06)	\$ 1.37
Diluted	\$ (1.60)	\$ (0.06)	\$ 1.37
Weighted average number of common shares outstanding			
Basic	1,434,912,682	1,209,601,809	1,065,923,652
Diluted	1,434,912,682	1,209,601,809	1,066,351,616
Other information			

Asset portfolio at period-end	\$	127,402,106	\$	102,340,249	\$	99,935,666
Average total assets	\$	123,202,411	\$	102,544,922	\$	91,374,962
Average equity	\$	15,325,340	\$	14,332,404	\$	13,371,907
Leverage at period-end ⁽¹⁾		7.1:1		6.3:1		5.7:1
Economic leverage at period-end ⁽²⁾		7.2:1		7.0:1		6.6:1
Capital ratio ⁽³⁾		12.0 %		12.1%		12.9%
Annualized return on average total assets		(1.76)%		0.05%		1.72%
Annualized return on average equity		(14.11)%		0.38%		11.73%
Annualized core return on average equity (excluding PAA) ⁽⁴⁾		10.28 %		10.99%		10.54%
Net interest margin ⁽⁵⁾		1.13 %		1.57%		1.38%
Net interest margin (excluding PAA) ⁽⁴⁾		1.32 %		1.52%		1.51%
Average yield on interest earning assets		3.15 %		3.23%		2.78%
Average yield on interest earning assets (excluding PAA) ⁽⁴⁾		3.36 %		3.17%		2.94%
Average cost of interest bearing liabilities ⁽⁶⁾		2.25 %		2.04%		1.75%
Net interest spread		0.90 %		1.19%		1.03%
Net interest spread (excluding PAA) ⁽⁴⁾		1.11 %		1.13%		1.19%
Constant prepayment rate		12.7 %		9.3%		10.6%
Long-term constant prepayment rate		13.9 %		10.1%		10.4%
Common stock book value per share	\$	9.66	\$	9.39	\$	11.34
Interest income (excluding PAA) ⁽⁴⁾	\$	4,042,191	\$	3,270,542	\$	2,634,962
Economic interest expense ⁽⁴⁾⁽⁶⁾	\$	2,433,500	\$	1,797,307	\$	1,334,093
Economic net interest income (excluding PAA) ⁽⁴⁾	\$	1,608,691	\$	1,473,235	\$	1,300,869
Core earnings ⁽⁴⁾	\$	1,320,502	\$	1,636,941	\$	1,267,160
Premium amortization adjustment cost (benefit)	\$	254,894	\$	(62,021)	\$	141,836
Core earnings (excluding PAA) ⁽⁴⁾⁽⁷⁾	\$	1,575,396	\$	1,574,920	\$	1,408,996
Core earnings per common share ⁽⁴⁾	\$	0.83	\$	1.25	\$	1.09
PAA cost (benefit) per common share ⁽⁴⁾	\$	0.17	\$	(0.05)	\$	0.13
Core earnings (excluding PAA) per common share ⁽⁴⁾	\$	1.00	\$	1.20	\$	1.22

⁽¹⁾ 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.

⁽²⁾ Computed as the sum of Recourse Debt, cost basis of TBA and CMBX derivatives outstanding, and net forward purchases (sales) of investments divided by total equity.

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

⁽⁴⁾ 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.

⁽⁷⁾ Excludes dividends on preferred stock.

2019 Compared with 2018

GAAP

Net income (loss) was (\$2.2) billion, which includes (\$0.2) million attributable to noncontrolling interests, or (\$1.60) per average basic common share, for the year ended December 31, 2019 compared to \$54.1 million, which includes (\$0.3) million attributable to noncontrolling interests, or (\$0.06) 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, partially offset by lower net losses on disposal of investments and higher interest income. Net unrealized gains (losses) on interest rate swaps was (\$1.2) billion for the year ended December 31, 2019 compared to \$424.1 million for the same period in 2018. Realized gains (losses) on termination or maturity of interest rate swaps was (\$1.4) billion for the year ended December 31, 2019 compared to \$1.4 million for the same period in 2018. Interest expense was \$2.8 billion for the year ended December 31, 2019 compared to \$1.9 billion for the same period in 2018, reflecting higher borrowing rates and an increase in average Interest Bearing Liabilities in 2019. Net losses on disposal of investments was (\$47.9) million for the year ended December 31, 2019 compared to (\$1.1) billion for the same period in 2018. Refer to the section titled "Realized and Unrealized Gains (Losses)" located within this Item 7 for additional information related to these changes. Interest income increased to \$3.8 billion for the year ended December 31, 2019 compared to \$3.3 billion for the same period in 2018, reflecting higher coupon income resulting from an increase in average Interest Earning Assets.

Non-GAAP

Core earnings (excluding premium amortization adjustment ("PAA")) were \$1.6 billion, or \$1.00 per average common share, for the year ended December 31, 2019, compared to \$1.6 billion, or \$1.20 per average common share, for the same period in 2018. Core earnings (excluding PAA) for the year ended December 31, 2019 remained relatively unchanged compared to the same period in 2018 as 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, was 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” and such acquisition, the “MTGE Acquisition”) 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.

Item 7. Management's Discussion and Analysis

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.

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 optimize our returns through prudent management of our diversified investment strategies. 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.

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

Item 7. Management's Discussion and Analysis

	For the Years Ended December 31,		
	2019	2018	2017
	(dollars in thousands, except per share data)		
GAAP net income (loss)	\$ (2,163,091)	\$ 54,148	\$ 1,569,016
Net income (loss) attributable to noncontrolling interests	(226)	(260)	(588)
Net income (loss) attributable to Annaly	(2,162,865)	54,408	1,569,604
Adjustments to exclude reported realized and unrealized (gains) losses			
Realized (gains) losses on termination or maturity of interest rate swaps	1,442,964	(1,409)	160,133
Unrealized (gains) losses on interest rate swaps	1,210,276	(424,081)	(512,918)
Net (gains) losses on disposal of investments	47,944	1,124,448	3,938
Net (gains) losses on other derivatives	680,770	403,001	(261,438)
Net unrealized (gains) losses on instruments measured at fair value through earnings	(36,021)	158,082	39,684
Loan loss provision	16,569	3,496	—
Adjustments to exclude components of other (income) loss			
Depreciation and amortization expense related to commercial real estate ⁽¹⁾	40,058	20,278	—
Non-core (income) loss allocated to equity method investments ⁽²⁾	21,385	(12,665)	—
Non-core other (income) loss ⁽³⁾	—	44,525	—
Adjustments to exclude components of general and administrative expenses and income taxes			
Transaction expenses and non-recurring items ⁽⁴⁾	19,284	65,416	—
Income tax effect of non-core income (loss) items	(5,961)	4,220	—
Adjustments to add back components of realized and unrealized (gains) losses			
TBA dollar roll income and CMBX coupon income ⁽⁵⁾	123,818	276,986	334,824
MSR amortization ⁽⁶⁾	(77,719)	(79,764)	(66,667)
Core earnings ⁽⁷⁾	1,320,502	1,636,941	1,267,160
Less			
Premium amortization adjustment cost (benefit)	254,894	(62,021)	141,836
Core earnings (excluding PAA) ⁽⁷⁾	\$ 1,575,396	\$ 1,574,920	\$ 1,408,996
Dividends on preferred stock	136,576	129,312	109,635
Core earnings attributable to common stockholders ⁽⁷⁾	\$ 1,183,926	\$ 1,507,629	\$ 1,157,525
Core earnings attributable to common stockholders (excluding PAA) ⁽⁷⁾	\$ 1,438,820	\$ 1,445,608	\$ 1,299,361
GAAP net income (loss) per average common share	\$ (1.60)	\$ (0.06)	\$ 1.37
Core earnings per average common share ⁽⁷⁾	\$ 0.83	\$ 1.25	\$ 1.09
Core earnings (excluding PAA) per average common share ⁽⁷⁾	\$ 1.00	\$ 1.20	\$ 1.22
GAAP return (loss) on average equity	(14.11)%	0.38%	11.73%
Core return on average equity (excluding PAA) ⁽⁷⁾	10.28 %	10.99%	10.54%

⁽¹⁾ Includes depreciation and amortization expense related to equity method investments.

⁽²⁾ Beginning with the quarter ended September 30, 2018, we exclude non-core (income) loss allocated to equity 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).

⁽³⁾ Represents the amount of consideration paid for the acquisition of MTGE in excess of the fair value of net assets acquired. This amount is primarily attributable to a decline in portfolio valuation between the pricing and closing dates of the transaction and is consistent with changes in market values observed for similar instruments over the same period.

⁽⁴⁾ Represents costs incurred in connection with securitizations of residential whole loans. The year ended December 31, 2019 also includes costs incurred in connection with the securitization of commercial loans and mortgage-backed securities. The year ended December 31, 2018 also includes costs incurred in connection with the MTGE Acquisition.

⁽⁵⁾ TBA dollar roll income and CMBX coupon income each represent a component of Net gains (losses) on other derivatives. CMBX coupon income totaled \$4.6 million and \$2.3 million for the years ended December 31, 2019 and 2018, respectively. There were no adjustments for CMBX coupon income prior to the quarter ended September 30, 2018.

⁽⁶⁾ MSR amortization represents the portion of changes in fair value that is attributable to the realization of estimated cash flows on our MSR portfolio and is reported as a component of Net unrealized gains (losses) on instruments measured at fair value.

⁽⁷⁾ 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

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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. 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, multifamily and reverse mortgages, 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 and residential securities transferred or pledged to securitization vehicles, for the periods presented:

	For the Years Ended December 31,		
	2019	2018	2017
	(dollars in thousands)		
Premium amortization expense	\$ 1,113,786	\$ 705,926	\$ 879,305
Less: PAA cost (benefit)	254,894	(62,021)	141,836
Premium amortization expense (excluding PAA)	\$ 858,892	\$ 767,947	\$ 737,469

	For the Years Ended December 31,		
	2019	2018	2017
	(per average common share)		
Premium amortization expense	\$ 0.78	\$ 0.58	\$ 0.82
Less: PAA cost (benefit)	0.17	(0.05)	0.13
Premium amortization expense (excluding PAA)	\$ 0.61	\$ 0.63	\$ 0.69

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. Prior to the three months ended March 31, 2018, economic interest expense included the net interest component of interest rate swaps used to hedge cost of funds. Beginning with the three months ended March 31, 2018, as a result of changes to our hedging portfolio, this metric reflects the net interest component of all 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. We may use market agreed coupon (“MAC”) interest rate swaps in which we may receive or make a payment at the time of entering into such interest rate swap to compensate for the off-market nature of such interest rate swap. In accordance with GAAP, upfront payments associated with MAC interest rate swaps are not reflected in the net interest component of interest rate swaps in the Consolidated Statements of Comprehensive Income (Loss). We did not enter into any MAC interest rate swaps during the year ended December 31, 2019.

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 Interest Income		PAA Cost (Benefit)		Interest Income (excluding PAA)
For the years ended	(dollars in thousands)				
December 31, 2019	\$ 3,787,297	\$	254,894	\$	\$ 4,042,191
December 31, 2018	\$ 3,332,563	\$	(62,021)	\$	\$ 3,270,542
December 31, 2017	\$ 2,493,126	\$	141,836	\$	\$ 2,634,962

Item 7. Management's Discussion and Analysis**Economic Interest Expense and Economic Net Interest Income (excluding PAA)**

	GAAP Interest Expense	Add: Net Interest Component of Interest Rate Swaps ⁽¹⁾	Economic Interest Expense	GAAP Net Interest Income	Less: Net Interest Component of Interest Rate Swaps ⁽¹⁾	Economic Net Interest Income	Add: PAA Cost (Benefit)	Economic Net Interest Income (excluding PAA)
(dollars in thousands)								
For the years ended								
December 31, 2019	\$ 2,784,875	\$ (351,375)	\$ 2,433,500	\$ 1,002,422	\$ (351,375)	\$ 1,353,797	\$ 254,894	\$ 1,608,691
December 31, 2018	\$ 1,897,860	\$ (100,553)	\$ 1,797,307	\$ 1,434,703	\$ (100,553)	\$ 1,535,256	\$ (62,021)	\$ 1,473,235
December 31, 2017	\$ 1,008,354	\$ 325,739	\$ 1,334,093	\$ 1,484,772	\$ 325,739	\$ 1,159,033	\$ 141,836	\$ 1,300,869

⁽¹⁾ Prior to the three months ended March 31, 2018, economic interest expense included the net interest component of interest rate swaps used to hedge cost of funds. Beginning with the three months ended March 31, 2018, as a result of changes to our hedging portfolio, this metric reflects the net interest component of all interest rate swaps.

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 CPR ⁽¹⁾	Long-term CPR ⁽²⁾
December 31, 2019	12.7%	13.9%
December 31, 2018	9.3%	10.1%
December 31, 2017	10.6%	10.4%

⁽¹⁾ For the years ended December 31, 2019, 2018 and 2017, respectively.

⁽²⁾ At December 31, 2019, 2018 and 2017, respectively.

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)

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	Average Interest Earning Assets ⁽¹⁾	Interest Income (excluding PAA) ⁽²⁾	Average Yield on Interest Earning Assets (excluding PAA) ⁽²⁾	Average Interest Bearing Liabilities	Economic Interest Expense ⁽²⁾⁽³⁾	Average Cost of Interest Bearing Liabilities ⁽³⁾	Economic Net Interest Income (excluding PAA) ⁽²⁾	Net Interest Spread (excluding PAA) ⁽²⁾
(dollars in thousands)								
For the years ended								
December 31, 2019	\$120,389,507	\$4,042,191	3.36%	\$108,355,575	\$2,433,500	2.25%	\$1,608,691	1.11%
December 31, 2018	\$103,227,574	\$3,270,542	3.17%	\$88,216,125	\$1,797,307	2.04%	\$1,473,235	1.13%
December 31, 2017	\$89,648,025	\$2,634,962	2.94%	\$76,321,069	\$1,334,093	1.75%	\$1,300,869	1.19%

⁽¹⁾ Based on amortized cost.

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

⁽³⁾ 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 Income (excluding PAA) ⁽¹⁾	TBA Dollar Roll and CMBX Coupon Income ⁽²⁾	Interest Expense	Net Interest Component of Interest Rate Swaps	Subtotal	Average Interest Earnings Assets	Average TBA Contract and CMBX Balances	Subtotal	Net Interest Margin (excluding PAA) ⁽¹⁾
(dollars in thousands)									
For the years ended									
December 31, 2019	\$4,042,191	123,818	(2,784,875)	351,375	\$1,732,509	\$120,389,507	10,953,117	\$131,342,624	1.32%
December 31, 2018	\$3,270,542	276,986	(1,897,860)	100,553	\$1,750,221	\$103,227,574	12,115,869	\$115,343,443	1.52%
December 31, 2017	\$2,634,962	334,824	(1,008,354)	(371,108)	\$1,590,324	\$89,648,025	15,416,045	\$105,064,070	1.51%

⁽¹⁾ 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 \$4.6 million and \$2.3 million for the years ended December 31, 2019 and December 31, 2018, respectively. 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.

Cost of Funds on Average Interest Bearing Liabilities

	Average Interest Bearing Liabilities	Interest Bearing Liabilities at Period End	Economic Interest Expense ⁽¹⁾	Average Cost of Interest Bearing Liabilities	Average One-Month LIBOR	Average Six-Month LIBOR	Average One-Month LIBOR Relative to Average Six-Month LIBOR	Average Cost of Interest Bearing Liabilities Relative to Average One-Month LIBOR	Average Cost of Interest Bearing Liabilities Relative to Average Six-Month LIBOR
(dollars in thousands)									
For the years ended									
December 31, 2019	\$ 108,355,575	\$ 111,819,229	\$ 2,433,500	2.25%	2.22%	2.32%	(0.10%)	0.03%	(0.07%)
December 31, 2018	\$ 88,216,125	\$ 88,646,247	\$ 1,797,307	2.04%	2.02%	2.49%	(0.47%)	0.02%	(0.45%)
December 31, 2017	\$ 76,321,069	\$ 84,505,642	\$ 1,334,093	1.75%	1.11%	1.48%	(0.37%)	0.64%	0.27%

⁽¹⁾ Economic interest expense is comprised of GAAP interest expense and the net interest component of interest rate swaps. Prior to the three months ended March 31, 2018, economic interest expense included the net interest component of interest rate swaps used to hedge cost of funds. Beginning with the three months ended March 31, 2018, as a result of changes to our hedging portfolio, this metric reflects the net interest component of all interest rate swaps.

2019 Compared with 2018

Economic interest expense increased by \$636.2 million for the year ended December 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,

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partially offset by the change in the net interest component of interest rate swaps which was \$351.4 million for the year ended December 31, 2019 compared to \$100.6 million for the same period in 2018.

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 December 31, 2019 and 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)

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 years ended December 31, 2019, 2018 and 2017 were as follows:

	For the Years Ended December 31,		
	2019	2018	2017
	(dollars in thousands)		
Net gains (losses) on interest rate swaps ⁽¹⁾	\$ (2,301,865)	\$ 526,043	\$ (18,323)
Net gains (losses) on disposal of investments	(47,944)	(1,124,448)	(3,938)
Net gains (losses) on other derivatives	(680,770)	(403,001)	261,438
Net unrealized gains (losses) on instruments measured at fair value through earnings	36,021	(158,082)	(39,684)
Loan loss provision	(16,569)	(3,496)	—
Total	\$ (3,011,127)	\$ (1,162,984)	\$ 199,493

⁽¹⁾ 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.

2019 Compared with 2018

Net gains (losses) on interest rate swaps for the year ended December 31, 2019 was (\$2.3) billion compared to \$526.0 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 (\$1.2) billion for the year ended December 31, 2019, reflecting a decline in forward interest rates, compared to \$424.1 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 (\$1.4) billion resulting from interest rate swaps with a notional amount of \$88.6 billion for the year ended December 31, 2019 compared to \$1.4 million resulting from the termination or maturity of interest rate swaps with a notional amount of \$750.0 million for the same period in 2018.

Net gains (losses) on disposal of investments was (\$47.9) million for the year ended December 31, 2019 compared with (\$1.1) billion for the same period in 2018. For the year ended December 31, 2019, we disposed of Residential Securities with a carrying value of \$25.5 billion for an aggregate net loss of (\$37.8) million. For the same period in 2018, we disposed of Residential Securities with a carrying value of \$45.6 billion for an aggregate net loss of (\$1.1) billion.

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Net gains (losses) on other derivatives was (\$680.8) million for the year ended December 31, 2019 compared to (\$403.0) million for the same period in 2018. The change in net gains (losses) on other derivatives was primarily comprised of changes in net gains (losses) on futures contracts, which was (\$962.7) million for the year ended December 31, 2019 compared to (\$104.0) million for the same period in 2018, partially offset by the change in net gains (losses) on TBA derivatives, which was \$326.8 million for the year ended December 31, 2019 compared to (\$209.2) million for the same period in 2018.

Net unrealized gains (losses) on instruments measured at fair value through earnings was \$36.0 million for the year ended December 31, 2019 compared to (\$158.1) 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, non-Agency mortgage-backed securities and residential loans, partially offset by unfavorable changes in unrealized gains (losses) on MSRs for the year ended December 31, 2019 compared to the same period in 2018.

For the year ended December 31, 2019, a loan loss provision of (\$16.6) million was recorded on commercial mortgage and corporate loans compared to (\$3.5) million on a commercial mortgage loan for the same period in 2018. Refer to the "Loans" Note located within Item 15 for additional information related to these loan loss provisions.

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.

Other income (loss) also includes the amount of consideration paid for the acquisition of MTGE in excess of the fair value of net assets acquired, which was \$44.5 million for the year ended December 31, 2018.

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&A Expenses and Operating Expense Ratios

	Total G&A Expenses ⁽¹⁾	Total G&A Expenses/Average Assets ⁽¹⁾	Total G&A Expenses/Average Equity ⁽¹⁾
For the years ended	(dollars in thousands)		
December 31, 2019	\$ 301,634	0.24%	1.97%
December 31, 2018	\$ 329,873	0.32%	2.30%
December 31, 2017	\$ 224,124	0.25%	1.68%

⁽¹⁾ Includes \$19.3 million of transaction costs incurred in connection with securitizations of residential whole loans, commercial loans and mortgage-backed securities for the year ended December 31, 2019. Includes \$65.4 million of transaction costs incurred in connection with the MTGE Acquisition and securitizations of residential whole loans for the year ended December 31, 2018. Excluding these transaction costs, G&A expenses as a percentage of average total assets and as a percentage of average equity were 0.23% and 1.84%, respectively, and 0.26% and 1.85%, respectively, for the years ended December 31, 2019 and 2018, respectively.

2019 Compared with 2018

G&A expenses decreased \$28.2 million to \$301.6 million for the year ended December 31, 2019 compared to the same period in 2018. The change was largely attributable to transaction costs in connection with the MTGE Acquisition in 2018, partially offset by higher transaction costs related to securitizations of residential whole loans in 2019, transaction costs related to securitizations of commercial loans and mortgage-backed securities in 2019 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.

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

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	Economic Net Interest Income/ Average Equity ⁽¹⁾	Realized and Unrealized Gains and Losses/Average Equity ⁽²⁾	Other Income (Loss)/Average Equity	G&A Expenses/ Average Equity	Income Taxes/ Average Equity	Return on Average Equity
For the years ended						
December 31, 2019	8.83%	(21.93%)	0.89%	(1.97%)	0.07%	(14.11%)
December 31, 2018	10.71%	(8.81%)	0.76%	(2.30%)	0.02%	0.38%
December 31, 2017	8.67%	3.93%	0.86%	(1.68%)	(0.05%)	11.73%

⁽¹⁾ Economic net interest income includes the net interest component of interest rate swaps. Prior to the three months ended March 31, 2018, economic interest expense included the net interest component of interest rate swaps used to hedge cost of funds. Beginning with the three months ended March 31, 2018, as a result of changes to our hedging portfolio, this metric reflects the net interest component of all interest rate swaps.

⁽²⁾ 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.

	December 31, 2019	December 31, 2018
(dollars in thousands)		
Unrealized gain	\$ 2,267,577	\$ 306,037
Unrealized loss	(129,386)	(2,285,902)
Accumulated other comprehensive income (loss)	\$ 2,138,191	\$ (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 December 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.

Item 7. Management's Discussion and Analysis

Financial Condition

Total assets were \$130.3 billion and \$105.8 billion at December 31, 2019 and 2018, respectively. The change was primarily due to increases in Agency mortgage-backed securities of \$22.1 billion and assets transferred or pledged to securitization vehicles of \$3.2 billion, partially offset by a decrease in reverse repurchase agreements of \$0.7 billion. Our portfolio composition, net equity allocation and debt-to-net equity ratio by asset class were as follows at December 31, 2019:

	Residential			Commercial				Total ⁽³⁾
	Agency MBS and MSRs	TBAs ⁽¹⁾	CRTs	Non-Agency MBS and Residential Mortgage Loans ⁽²⁾	CRE Debt & Preferred Equity Investments	Investments in CRE	Corporate Debt	
(dollars in thousands)								
Assets								
Fair value/carrying value	\$ 114,394,033	\$ 6,892,270	\$ 531,322	\$ 5,382,029	\$ 4,224,234	\$ 725,638	\$ 2,144,850	\$ 127,402,106
Debt								
Repurchase agreements	99,591,465	6,888,405	268,738	1,024,528	855,997	—	—	101,740,728
Other secured financing	2,476,709	—	—	1,086,409	64,189	—	828,393	4,455,700
Debt issued by securitization vehicles	997,167	—	—	2,022,372	2,603,262	—	—	5,622,801
Net forward purchases	440,231	—	—	18,364	—	—	—	458,595
Mortgages payable	—	—	—	—	—	485,005	—	485,005
Net equity allocated	\$ 10,888,461	\$ 3,865	\$ 262,584	\$ 1,230,356	\$ 700,786	\$ 240,633	\$ 1,316,457	\$ 14,639,277 ⁽⁴⁾
Net equity allocated (%)	74%	—%	2%	8%	5%	2%	9%	100%
Debt/net equity ratio	9.5:1	NM	1.0:1	3.4:1	5.0:1	2.0:1	0.6:1	7.1:1 ⁽⁵⁾

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

⁽²⁾ Includes loans held for sale, net.

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

⁽⁴⁾ 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.

⁽⁵⁾ 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 December 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 December 31, 2019 and December 31, 2018 we had on our Consolidated Statements of Financial Condition a total of \$156.9 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, excluding securities transferred or pledged to securitization vehicles, acquired at a price below principal value) and a total of \$5.3 billion at each period of unamortized premium (which is the difference between the remaining principal value and the current amortized cost of our Residential Securities, excluding securities transferred or pledged to securitization vehicles, acquired at a price above principal value).

The weighted average experienced prepayment speed on our Agency mortgage-backed securities portfolio for the years ended December 31, 2019 and 2018 was 12.7% and 9.3%, respectively. The weighted average projected long-term prepayment speed on our Agency mortgage-backed securities portfolio as of December 31, 2019 and 2018 was 13.9% and 10.1%, 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.

Item 7. Management's Discussion and Analysis

The following tables present our Residential Securities, excluding securities transferred or pledged to securitization vehicles, that were carried at fair value at December 31, 2019 and December 31, 2018.

Agency	December 31, 2019		December 31, 2018	
	Estimated Fair Value (dollars in thousands)			
Fixed-rate pass-through	\$	108,723,414	\$	83,052,552
Adjustable-rate pass-through		1,524,331		4,937,984
CMO		160,016		11,221
Interest-only		708,562		873,889
Multifamily		1,717,197		1,838,565
Reverse mortgages		59,847		38,784
Total agency securities	\$	112,893,367	\$	90,752,995
Residential credit				
CRT	\$	531,322	\$	552,097
Alt-A		151,383		182,361
Prime		276,257		343,986
Prime Interest-only		3,167		—
Subprime		348,979		394,621
NPL/RPL		164,268		3,438
Prime jumbo (>= 2010 vintage)		184,664		220,658
Prime jumbo (>= 2010 vintage) interest-only		7,150		16,874
Total residential credit securities	\$	1,667,190	\$	1,714,035
Total Residential Securities	\$	114,560,557	\$	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, excluding securities transferred or pledged to securitization vehicles, at December 31, 2019 and December 31, 2018.

	December 31, 2019		December 31, 2018	
Residential Securities ⁽¹⁾	(dollars in thousands)			
Principal amount	\$	107,412,143	\$	89,579,223
Net premium		4,309,668		3,925,803
Amortized cost		111,721,811		93,505,026
Amortized cost / principal amount		104.01%		104.38%
Carrying value		113,841,402		91,575,882
Carrying value / principal amount		105.99%		102.23%
Weighted average coupon rate		3.91%		3.90%
Weighted average yield		3.07%		3.17%
Adjustable-rate Residential Securities ⁽¹⁾				
Principal amount	\$	2,513,310	\$	6,020,096
Weighted average coupon rate		4.13%		3.47%
Weighted average yield		3.52%		2.87%
Weighted average term to next adjustment		13 Months		19 Months
Weighted average lifetime cap ⁽²⁾		8.24%		8.04%
Principal amount at period end as % of total residential securities		2.34%		6.72%
Fixed-rate Residential Securities ⁽¹⁾				
Principal amount	\$	104,898,833	\$	83,559,127
Weighted average coupon rate		3.90%		3.93%
Weighted average yield		3.06%		3.19%
Principal amount at period end as % of total residential securities		97.66%		93.28%
Interest-only Residential Securities				
Notional amount	\$	5,447,193	\$	6,867,093
Net premium		876,129		1,192,675
Amortized cost		876,129		1,192,675

Amortized cost / notional amount	16.08%	17.37%
Carrying value	719,155	891,148
Carrying value / notional amount	13.20%	12.98%
Weighted average coupon rate	3.29%	3.10%
Weighted average yield	1.73%	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.

Item 7. Management's Discussion and Analysis

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

Product	Payment Structure			Investment Characteristics			
	Total	Senior	Subordinate	Coupon	Credit Enhancement	60+ Delinquencies	3M VPR ⁽¹⁾
	(dollars in thousands)						
Agency credit risk transfer	\$ 508,643	\$ —	\$ 508,643	5.67%	1.00%	0.43%	22.58%
Private label credit risk transfer	22,679	—	22,679	7.25%	—%	0.21%	17.67%
Alt-A	151,383	82,005	69,378	4.49%	12.41%	8.51%	13.66%
Prime	276,257	78,289	197,968	4.38%	7.64%	4.12%	20.08%
Prime interest-only	3,167	3,167	—	0.47%	—%	0.44%	40.67%
Subprime	348,979	118,352	230,627	2.58%	9.05%	21.74%	6.97%
Re-performing loan securitizations	164,268	—	164,268	4.19%	23.37%	13.64%	6.19%
Prime jumbo (>=2010 vintage)	184,664	145,901	38,763	3.95%	15.92%	0.19%	32.12%
Prime jumbo (>=2010 vintage) interest-only	7,150	7,150	—	0.37%	—	0.13%	19.45%
Total/weighted average	\$ 1,667,190	\$ 434,864	\$ 1,232,326	4.62%	8.87%	8.02%	33.00%

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

Product	Bond Coupon				Estimated Fair Value
	ARM	Fixed	Floater	Interest-Only	
	(dollars in thousands)				
Agency credit risk transfer	\$ —	\$ —	\$ 508,643	\$ —	\$ 508,643
Private label credit risk transfer	—	—	22,679	—	22,679
Alt-A	30,636	102,855	17,892	—	151,383
Prime	68,448	177,827	29,982	—	276,257
Prime interest-only	—	—	—	3,167	3,167
Subprime	—	26,914	322,065	—	348,979
Re-performing loan securitizations	—	164,268	—	—	164,268
Prime jumbo (>=2010 vintage)	—	184,664	—	—	184,664
Prime jumbo (>=2010 vintage) interest-only	—	—	—	7,150	7,150
Total	\$ 99,084	\$ 656,528	\$ 901,261	\$ 10,317	\$ 1,667,190

Contractual Obligations

The following table summarizes the effect on our liquidity and cash flows from contractual obligations at December 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 December 31, 2019, the interest rate swaps had a net fair value of (\$705.7) million.

Item 7. Management's Discussion and Analysis

	Within One Year	One to Three Years	Three to Five Years	More than Five Years	Total
	(dollars in thousands)				
Repurchase agreements	\$ 101,740,728	\$ —	\$ —	\$ —	\$ 101,740,728
Interest expense on repurchase agreements ⁽¹⁾	362,099	—	—	—	362,099
Other secured financing	1,469,833	2,157,474	828,393	—	4,455,700
Interest expense on other secured financing ⁽¹⁾	109,485	66,182	56,397	—	232,064
Debt issued by securitization vehicles (principal)	—	—	—	5,584,552	5,584,552
Interest expense on debt issued by securitization vehicles	182,432	239,565	231,007	3,165,240	3,818,244
Mortgages payable (principal)	22,696	39,850	7,824	420,261	490,631
Interest expense on mortgages payable	19,512	38,429	37,678	139,444	235,063
Long-term operating lease obligations	3,799	7,780	7,724	2,895	22,198
Total	\$ 103,910,584	\$ 2,549,280	\$ 1,169,023	\$ 9,312,392	\$ 116,941,279

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

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 year ended December 31, 2019, we received \$17.2 billion from principal repayments and \$25.5 billion in cash from disposal of Residential Securities. During the year ended December 31, 2018, we received \$11.4 billion from principal repayments and \$33.3 billion 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, we have 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 December 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 capital policy defines the parameters and principles supporting a comprehensive capital management practice.

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" of this annual report on Form 10-K.

Capital requirements are based on maintaining levels above approved thresholds, ensuring the quality of our capital appropriately reflects our asset mix, market and funding structure. In the event we fall short of our internal thresholds, 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.

Stockholders' Equity

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

	December 31, 2019	December 31, 2018
Stockholders' equity	(dollars in thousands)	
7.625% Series C cumulative redeemable preferred stock	—	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
6.75% Series I fixed-to-floating rate cumulative redeemable preferred stock	428,324	—
Common stock	14,301	13,138
Additional paid-in capital	19,966,923	18,794,331
Accumulated other comprehensive income (loss)	2,138,191	(1,979,865)
Accumulated deficit	(8,309,424)	(4,493,660)

Total stockholders' equity

\$ 15,792,017

\$ 14,112,112

Item 7. Management's Discussion and Analysis**Capital Stock***Common Stock*

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

	For the Years Ended	
	December 31, 2019	December 31, 2018
	(dollars in thousands)	
Shares issued through direct purchase and dividend reinvestment program	180,000	302,000
Amount raised from direct purchase and dividend reinvestment program	\$ 1,795	\$ 3,144

During the year ended December 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 year ended December 31, 2018, we closed the public offering of an original issuance of 75.0 million shares of common stock for proceeds of \$762.8 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 \$114.4 million in proceeds before deducting offering expenses.

During the year ended December 31, 2018, we issued 43.6 million shares of common stock as part of the consideration for the MTGE Acquisition.

In June 2019, we announced that our Board had authorized the repurchase of up to \$1.5 billion of our outstanding shares of common stock through December 31, 2020. During the year ended December 31, 2019, we repurchased 26.2 million shares of our common stock for an aggregate amount of \$223.2 million, excluding commission costs. All common shares purchased were part of a publicly announced plan in open-market transactions.

During the years ended December 31, 2019 and 2018, we issued 56.0 million shares of common stock for proceeds of \$569.1 million, net of commissions and fees, and 24.0 million shares for proceeds of \$251.1 million, net of commissions and fees, respectively, under the at-the-market sales program.

No options were exercised during the years ended December 31, 2019, and 2018.

Preferred Stock

During the year ended December 31, 2019, we redeemed all 7.0 million of our issued and outstanding shares of 7.625% Series C Cumulative Redeemable Preferred Stock ("Series C Preferred Stock") for \$175.0 million. The cash redemption amount for each share of Series C Preferred Stock was \$25.00 plus accrued and unpaid dividends to, but not including, the redemption date of July 21, 2019.

During the year ended December 31, 2019, we redeemed all 2.2 million of our issued and outstanding shares of 8.125% Series H Cumulative Redeemable Preferred Stock ("Series H Preferred Stock") for \$55.0 million. The cash redemption amount for each share of Series H Preferred Stock was \$25.00 plus accrued and unpaid dividends to, but not including, the redemption date of May 31, 2019.

During the year ended December 31, 2019, we issued 17.7 million shares of our 6.750% Series I Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock for gross proceeds of \$442.5 million before deducting the underwriting discount and other estimated offering costs.

During the year ended ended December 31, 2018, we issued 17.0 million shares of our 6.50% Series G Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock for gross proceeds of \$425.0 million before deducting the underwriting discount and other estimated offering expenses, and 2.2 million shares of our Series H Preferred Stock in connection with the MTGE Acquisition. Refer to the "Acquisition of MTGE Investment Corp." Note in Part IV, Item 15 for additional information related to our Series H Preferred Stock.

During the year ended ended December 31, 2018, redeemed 5.0 million shares of our 7.625% Series C Cumulative Redeemable Preferred Stock for \$125.0 million and all 11.5 million of our issued and outstanding shares of 7.625% Series E Cumulative Redeemable Preferred Stock for \$287.5 million.

Item 7. Management's Discussion and Analysis

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 December 31, 2019 and 2018 was 7.1:1 and 6.3:1, respectively. Our economic leverage ratio, which is computed as the sum of Recourse Debt, cost basis of TBA and CMBX derivatives outstanding, and net forward purchases (sales) of investments divided by total equity, at December 31, 2019 and 2018 was 7.2:1 and 7.0:1, respectively. 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 December 31, 2019 and 2018, respectively.

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 identifying, 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.

Item 7. Management’s Discussion and Analysis

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

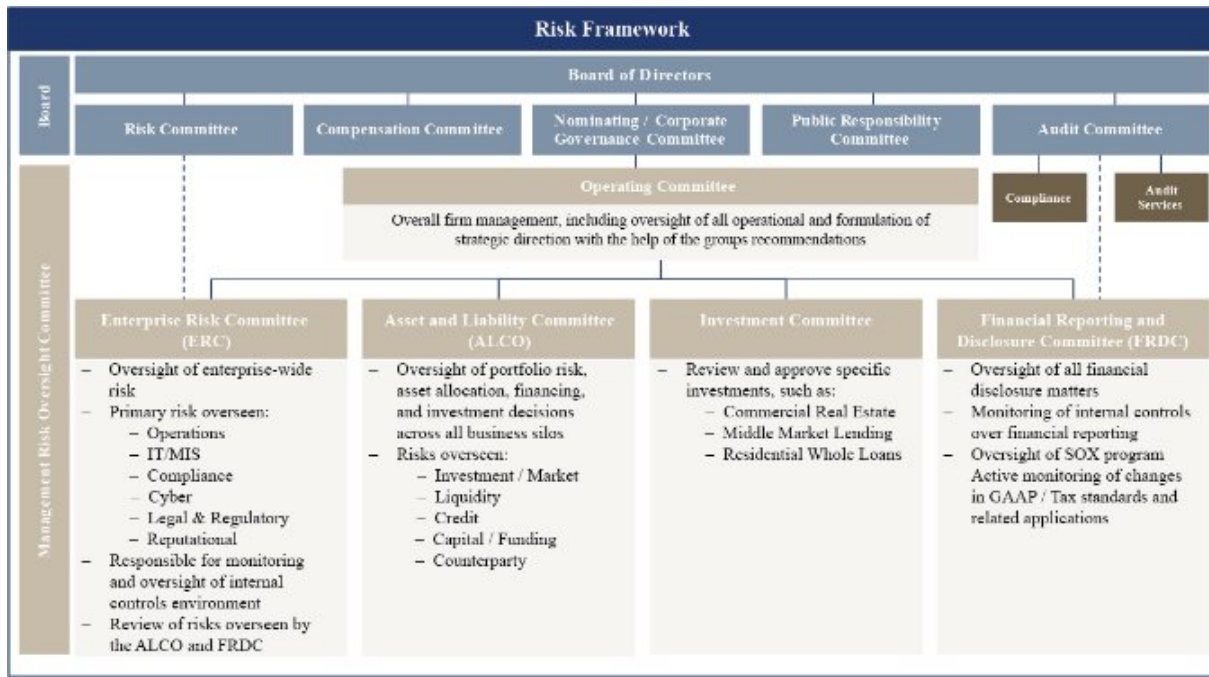
Risk management begins with our Board, through the review and oversight of the risk management framework, and executive management, through the ongoing formulation of risk management practices and related execution in managing risk. The Board exercises its oversight of risk management primarily through 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.

Our compliance group is responsible for oversight of our regulatory compliance. Our Chief Compliance Officer has reporting lines to the BAC.

Item 7. 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:

Item 7. Management's Discussion and Analysis

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 of Des Moines ("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 laddered approach to our repurchase agreements. At December 31, 2019, the weighted average days to maturity was 65 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 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 December 31, 2019, we had total financial assets and cash pledged against existing liabilities of \$114.5 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 December 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 year ended December 31, 2019.

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

Item 7. Management's Discussion and Analysis

Quarter ended	Repurchase Agreements		Reverse Repurchase Agreements	
	Average Daily Amount Outstanding	Ending Amount Outstanding	Average Daily Amount Outstanding	Ending Amount Outstanding
	(dollars in thousands)			
December 31, 2019	\$ 102,760,107	\$ 101,740,728	\$ 1,006,487	\$ —
September 30, 2019	108,389,796	102,682,104	1,459,070	—
June 30, 2019	101,983,828	105,181,241	3,478,510	—
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	—

The following table provides information on our repurchase agreements and other secured financing by maturity date at December 31, 2019. The weighted average remaining maturity on our repurchase agreements and other secured financing was 89 days at December 31, 2019:

	December 31, 2019		
	Principal Balance	Weighted Average Rate	% of Total
	(dollars in thousands)		
1 day	\$ —	—%	—%
2 to 29 days	37,382,530	2.15%	35.2%
30 to 59 days	15,300,157	2.00%	14.4%
60 to 89 days	22,207,736	1.97%	20.9%
90 to 119 days	10,020,505	1.97%	9.4%
Over 119 days ⁽¹⁾	21,285,500	2.02%	20.1%
Total	\$ 106,196,428	2.05%	100.0%

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

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

	Principal Balance	Weighted Average Rate		Weighted Average Days to Maturity ⁽¹⁾
		As of Period End	For the Quarter	
	(dollars in thousands)			
Repurchase agreements	\$ 101,740,728	2.03%	2.10%	65
Other secured financing ⁽²⁾	4,455,700	2.48%	2.70%	620
Securitized debt of consolidated VIEs ⁽³⁾	5,584,552	3.23%	3.28%	7,627
Mortgages payable ⁽³⁾	490,631	4.07%	3.98%	4,594
Total indebtedness	\$ 112,271,611			

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

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

⁽³⁾ 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.

Item 7. Management's Discussion and Analysis

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 December 31, 2019:

	Encumbered Assets	Unencumbered Assets	Total
(dollars in thousands)			
Financial assets			
Cash and cash equivalents	\$ 1,648,545	\$ 202,184	\$ 1,850,729
Investments, at carrying value ⁽¹⁾			
Agency mortgage-backed securities ⁽²⁾	108,407,075	5,169,789	113,576,864
Credit risk transfer securities	342,629	188,693	531,322
Non-agency mortgage-backed securities	942,606	193,262	1,135,868
Residential mortgage loans ⁽²⁾	3,909,642	336,519	4,246,161
MSRs	3,336	374,742	378,078
Commercial real estate debt investments ⁽²⁾	2,584,967	33,176	2,618,143
Commercial real estate debt and preferred equity, held for investment ⁽²⁾	1,151,073	455,018	1,606,091
Corporate debt	1,412,769	732,081	2,144,850
Other assets ⁽³⁾	—	252,578	252,578
Total financial assets	\$ 120,402,642	\$ 7,938,042	\$ 128,340,684

⁽¹⁾ 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.

⁽²⁾ Includes assets transferred or pledged to securitization vehicles.

⁽³⁾ 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 December 31, 2019:

	Carrying Value ⁽¹⁾
(dollars in thousands)	
Liquid assets	
Cash and cash equivalents	\$ 1,850,729
Residential Securities ⁽²⁾⁽³⁾	114,121,074
Residential mortgage loans ⁽⁴⁾	1,647,787
Commercial real estate debt investments ⁽⁵⁾	273,023
Commercial real estate debt and preferred equity, held for investment ⁽⁶⁾	536,385
Corporate debt, held for investment ⁽⁷⁾	1,600,652
Total liquid assets	\$ 120,029,650
Percentage of liquid assets to carrying amount of encumbered and unencumbered financial assets ⁽⁸⁾	98.92%

⁽¹⁾ Carrying value approximates the market value of assets. The assets listed in this table include \$114.5 billion of assets that have been pledged as collateral against existing liabilities at December 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 Agency mortgage-backed securities of consolidated VIEs carried at fair value of \$1.1 billion

⁽⁴⁾ Excludes securitized residential mortgage loans transferred or pledged to consolidated VIEs carried at fair value of \$2.6 billion.

⁽⁵⁾ Excludes securitized commercial mortgage loans of consolidated VIEs carried at fair value of \$2.3 billion.

⁽⁶⁾ Excludes senior securitized commercial mortgage loans of consolidated VIEs carried at fair value of \$0.9 billion.

⁽⁷⁾ Excludes certain second lien loans.

⁽⁸⁾ Denominator is computed based on the carrying amount of encumbered and unencumbered financial assets, excluding Agency mortgage-backed securities and loans of consolidated VIEs carried at fair value of \$7.0 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

Item 7. Management's Discussion and Analysis

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 December 31, 2019 could vary substantially based on actual prepayment experience.

	Less than 3 Months	3-12 Months	More than 1 Year to 3 Years	3 Years and Over	Total
(dollars in thousands)					
Financial assets					
Cash and cash equivalents	\$ 1,850,729	\$ —	\$ —	\$ —	\$ 1,850,729
Agency mortgage-backed securities (principal)	—	831	614,976	105,138,966	105,754,773
Credit risk transfer securities (principal)	—	—	83,887	418,298	502,185
Non-agency mortgage-backed securities (principal)	2,565	—	271,956	880,664	1,155,185
Commercial mortgage-backed securities (principal)	—	—	—	263,965	263,965
Total securities	2,565	831	970,819	106,701,893	107,676,108
Residential mortgage loans (principal)	—	—	—	1,610,813	1,610,813
Commercial real estate debt and preferred equity (principal)	64,390	—	110,623	511,550	686,563
Corporate debt (principal)	—	3,046	128,935	2,040,677	2,172,658
Total loans	64,390	3,046	239,558	4,163,040	4,470,034
Assets transferred or pledged to securitization vehicles (principal)	—	—	—	6,824,776	6,824,776
Total financial assets - maturity	1,917,684	3,877	1,210,377	117,689,709	120,821,647
Effect of utilizing reset dates ⁽¹⁾	7,450,528	1,410,613	(290,259)	(8,570,882)	
Total financial assets - interest rate sensitive	\$ 9,368,212	\$ 1,414,490	\$ 920,118	\$ 109,118,827	\$ 120,821,647
Financial liabilities					
Repurchase agreements	\$ 74,800,423	\$ 26,940,305	\$ —	\$ —	\$ 101,740,728
Other secured financing	90,000	1,379,833	2,157,474	828,393	4,455,700
Debt issued by securitization vehicles (principal)	—	—	—	5,584,552	5,584,552
Total financial liabilities - maturity	74,890,423	28,320,138	2,157,474	6,412,945	111,780,980
Effect of utilizing reset dates ⁽¹⁾⁽²⁾	(50,307,598)	(3,588,023)	25,137,866	28,757,755	
Total financial liabilities - interest rate sensitive	\$ 24,582,825	\$ 24,732,115	\$ 27,295,340	\$ 35,170,700	\$ 111,780,980
Maturity gap	\$ (72,972,739)	\$ (28,316,261)	\$ (947,097)	\$ 111,276,764	\$ 9,040,667
Cumulative maturity gap	\$ (72,972,739)	\$ (101,289,000)	\$ (102,236,097)	\$ 9,040,667	
Interest rate sensitivity gap	\$ (15,214,613)	\$ (23,317,625)	\$ (26,375,222)	\$ 73,948,127	\$ 9,040,667
Cumulative rate sensitivity gap	\$ (15,214,613)	\$ (38,532,238)	\$ (64,907,460)	\$ 9,040,667	

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

⁽²⁾ Includes effect of interest rate swaps.

Item 7. Management's Discussion and Analysis

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 risk indicators. 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.

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 utilize contracts linked to LIBOR but may also enter into interest rate swaps where the floating leg is linked to the overnight index swap rate or another index, particularly in light of a potential transition away from LIBOR. In addition, we may use 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 price transparency, flexibility 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 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 December 31, 2019. Actual results could differ materially from these estimates.

Change in Interest Rate ⁽¹⁾	Projected Percentage Change in Economic Net Interest Income ⁽²⁾	Estimated Percentage Change in Portfolio Value ⁽³⁾	Estimated Change as a % on NAV ⁽³⁾⁽⁴⁾
-75 Basis points	(41.0%)	0.1%	1.0%
-50 Basis points	(26.0%)	0.1%	1.0%
-25 Basis points	(12.0%)	0.1%	0.8%
+25 Basis points	9.2%	(0.2%)	(1.7%)
+50 Basis points	16.3%	(0.5%)	(4.5%)
+75 Basis points	20.4%	(1.0%)	(8.1%)

MBS Spread Shock ⁽¹⁾	Estimated Change in Portfolio Market Value	Estimated Change as a % on NAV ⁽³⁾⁽⁴⁾
-25 Basis points	1.2%	10.5%
-15 Basis points	0.7%	6.2%
-5 Basis points	0.2%	2.1%
+5 Basis points	(0.2%)	(2.1%)
+15 Basis points	(0.7%)	(6.2%)
+25 Basis points	(1.2%)	(10.2%)

⁽¹⁾ 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.

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. Additionally, ALCO has oversight of the firm’s credit risk exposure.

Our portfolio composition, based on balance sheet values, at December 31, 2019 and 2018 was as follows:

Category	December 31, 2019	December 31, 2018
Agency mortgage-backed securities	89.5%	88.8%
Credit risk transfer securities	0.4%	0.5%
Non-agency mortgage-backed securities	0.9%	1.1%
Residential mortgage loans ⁽¹⁾	3.3%	2.4%
Mortgage servicing rights	0.3%	0.5%
Commercial real estate ⁽¹⁾⁽²⁾	3.9%	4.9%
Corporate debt	1.7%	1.8%

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

⁽²⁾ Net of unamortized origination fees.

Item 7. Management's Discussion and Analysis**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 applicable 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. Additionally, ALCO has oversight of the firm's counterparty exposure.

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

Geography	Number of Counterparties	Repurchase Agreement Financing	Interest Rate Swaps at Fair Value	Exposure ⁽¹⁾
(dollars in thousands)				
North America	37	\$ 74,026,986	\$ (251,047)	\$ 3,574,582
Europe	13	20,713,479	(454,616)	1,571,460
Asia (non-Japan)	1	466,189	—	23,397
Japan	4	6,534,074	—	346,859
Total	55	\$ 101,740,728	\$ (705,663)	\$ 5,516,298

⁽¹⁾ 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 our 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, and the Board via 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.

Item 7. Management's Discussion and Analysis***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. We also regularly assess our risk management in respect of our regulated and licensed subsidiaries, which include our registered broker-dealer subsidiary Arcola and our subsidiary that is registered with the SEC as an investment adviser under the Investment Advisers Act.

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 Act, 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 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. While prepayment rates may be difficult to predict and require estimation and judgment in the valuation of Agency mortgage-backed securities, we use several third party models to validate prepayment speeds used in fair value measurements of residential 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. While prepayment rates may be difficult to predict and are a significant estimate requiring judgment in the valuation of residential whole loans, we validate prepayment speeds against those provided by independent pricing analytic providers specializing in residential mortgage loans. Internal fair values are generally compared to external pricing sources to determine reasonableness.

MSRs

Fair value estimates for our investment in MSRMs 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 MSRMs requires significant judgment by management and the third-party pricing providers.

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.

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. To aid in determining projected lives of the securities, 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.

Item 7. Management's Discussion and Analysis

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.

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

Item 7. 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.

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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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. Prior to the three months ended March 31, 2018, economic interest expense included the net interest component of interest rate swaps used to hedge cost of funds. Beginning with the three months ended March 31, 2018, as a result of changes to our hedging portfolio, this metric reflects the net interest component of all interest rate swaps.

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

Calculated as the sum of recourse debt, cost basis of TBA and CMBX derivatives 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.

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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.

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.

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 Advisers Act

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

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

Our projected prepayment speeds for certain Agency mortgage-backed securities using third-party model and market information. Our 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 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 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.

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.

Overnight Index Swaps ("OIS")

An interest rate swap in which a fixed rate is exchanged for an overnight floating rate.

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.

Prepayment Speed

The estimated rate at which mortgage borrowers will pay off the mortgages that underlie an MBS.

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

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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.

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.

Taxable REIT Subsidiary (“TRS”)

An entity that is owned directly or indirectly by a REIT and has jointly elected with the REIT to be treated as a TRS for tax purposes. Annaly and certain of its direct and indirect subsidiaries have made separate joint elections to treat these subsidiaries as TRSs.

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.

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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.

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.

Voting Interest Entity (“VOE”)

An entity that has sufficient equity to finance its activities without additional subordinated financial support from other parties and in which equity investors have a controlling financial interest.

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.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and qualitative disclosures about market risk are contained within the section titled “Risk Management” of Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our financial statements and the related notes, together with the Report of Independent Registered Public Accounting Firm thereon, are set forth beginning on page F-1 of this Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. 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 Annaly 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 Annaly 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 December 31, 2019 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

Management’s Annual Report On Internal Control Over Financial Reporting

Management of Annaly is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) or 15d-15(f) under the Securities Exchange Act. Our internal control over financial reporting is a process designed by, or under the supervision of, Annaly’s CEO and CFO and effected by the Annaly’s board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of Annaly;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of Annaly are being made only in accordance with authorizations of management and directors of Annaly; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Annaly's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. As a result, even systems determined to be effective can provide only reasonable assurance regarding the preparation and presentation of financial statements. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Annaly's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2019. In making this assessment, the Company's management used criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission's ("COSO") Internal Control-Integrated Framework (2013).

Based on the Annaly's management's evaluation under the framework in Internal Control—Integrated Framework (2013), Annaly's management concluded that its internal control over financial reporting was effective as of December 31, 2019. Annaly's independent registered public accounting firm, Ernst & Young LLP, has issued an attestation report on Annaly's internal control over financial reporting, which is included herein.

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of Annaly Capital Management, Inc. and Subsidiaries

Opinion on Internal Control over Financial Reporting

We have audited Annaly Capital Management, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Annaly Capital Management, Inc. and Subsidiaries' (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statements of financial condition of the Company as of December 31, 2019 and 2018, the related consolidated statements of comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended December 31, 2019, the related notes and financial statement schedules III and IV, and our report dated February 13, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

New York, NY
February 13, 2020

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 as to our directors is incorporated herein by reference to the proxy statement to be filed with the SEC within 120 days after December 31, 2019. The information regarding our executive officers required by Item 10 appears in Part I of this Form 10-K. The information required by Item 10 as to our compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated by reference to the proxy statement to be filed with the SEC within 120 days after December 31, 2019.

We have adopted a Code of Business Conduct and Ethics within the meaning of Item 406(b) of Regulation S-K. This Code of Business Conduct and Ethics applies to our principal executive officer, principal financial officer and principal accounting officer. This Code of Business Conduct and Ethics is publicly available on our website at www.annaly.com. We intend to satisfy the disclosure requirements regarding amendments to, or waivers from, certain provisions of this Code of Business Conduct and Ethics by posting on our website.

The information regarding certain matters pertaining to our corporate governance required by Item 407(c)(3), (d)(4) and (d)(5) of Regulation S-K is incorporated by reference to the Proxy Statement to be filed with the SEC within 120 days after December 31, 2019.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated herein by reference to the proxy statement to be filed with the SEC within 120 days after December 31, 2019.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**Equity Compensation Plan Information**

On May 27, 2010, at our 2010 Annual Meeting of Stockholders, our stockholders approved the 2010 Equity Incentive Plan. The 2010 Equity Incentive Plan authorizes the Compensation Committee of the Board to grant options, stock appreciation rights, dividend equivalent rights, or other share-based awards, including restricted shares up to an aggregate of 25,000,000 shares, subject to adjustments as provided in the 2010 Equity Incentive Plan.

We had previously adopted a long-term stock incentive plan for executive officers, key employees and nonemployee directors (the "Prior Incentive Plan"). Since the adoption of the 2010 Equity Incentive Plan, no further awards will be made under the Prior Incentive Plan, although existing awards will remain effective. All stock options issued under the 2010 Equity Incentive Plan and the Prior Incentive Plan (collectively the "Incentive Plans") were issued at the current market price on the date of grant, subject to an immediate or four year vesting in four equal installments with a contractual term of 5 or 10 years. The grant date fair value is calculated using the Black-Scholes option valuation model.

The following table provides information as of December 31, 2019 concerning shares of our common stock authorized for issuance under the Incentive Plans.

Plan Category	(a)	(b)	(c)
	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under the Incentive Plans (excluding securities in column 'a')
Equity compensation plans approved by security holders	—	\$ —	28,735,784
Equity compensation plans not approved by security holders	—	—	—
Total	—	\$ —	28,735,784

Information with respect to security ownership of certain beneficial owners and management is incorporated herein by reference to the proxy statement to be filed with the SEC within 120 days after December 31, 2019.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 13 is incorporated herein by reference to the proxy statement to be filed with the SEC within 120 days after December 31, 2019.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by Item 14 is incorporated herein by reference to the proxy statement to be filed with the SEC within 120 days after December 31, 2019.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this report:

1. Financial Statements. See Index to Financial Statements below.
2. Schedules to Financial Statements. See Index to Financial Statements below

All financial istatement schedules not included have been omitted because they are either inapplicable or the information required is provided in our Financial Statements and Notes thereto.

3. Exhibits. See Exhibit Index below.

EXHIBIT INDEX

Exhibit Number	Exhibit Description
3.1	Articles of Amendment and Restatement of the Articles of Incorporation of the Registrant (incorporated by reference to Exhibit 3.2 to the Registrant's Registration Statement on Form S-11 (Registration No. 333-32913) filed August 5, 1997).
3.2	Articles of Amendment of the Articles of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 of the Registrant's Registration Statement on Form S-3 (Registration Statement 333-74618) filed June 12, 2002).
3.3	Articles of Amendment of the Articles of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed August 3, 2006).
3.4	Articles of Amendment of the Articles of Incorporation of the Registrant (incorporated by reference to Exhibit 3.4 of the Registrant's Quarterly Report on Form 10-Q filed May 7, 2008).
3.5	Articles of Amendment of the Articles of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed June 23, 2011).
3.6	Articles of Amendment of the Articles of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed May 23, 2019).
3.7	Form of Articles Supplementary designating the Registrant's 7.875% Series A Cumulative Redeemable Preferred Stock, liquidation preference \$25.00 per share (incorporated by reference to Exhibit 3.3 to the Registrant's Registration Statement on Form 8-A filed April 1, 2004).
3.8	Articles Supplementary of the Registrant's designating an additional 2,750,000 shares of the Company's 7.875% Series A Cumulative Redeemable Preferred Stock, as filed with the State Department of Assessments and Taxation of Maryland on October 15, 2004 (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed October 18, 2004).
3.9	Articles Supplementary designating the Registrant's 6% Series B Cumulative Convertible Preferred Stock, liquidation preference \$25.00 per share (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on 8-K filed April 10, 2006).
3.10	Articles Supplementary designating the Registrant's 7.625% Series C Cumulative Redeemable Preferred Stock, liquidation preference \$25.00 per share (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed May 16, 2012).
3.11	Articles Supplementary designating the Registrant's 7.50% Series D Cumulative Redeemable Preferred Stock, liquidation preference \$25.00 per share (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed September 13, 2012).
3.12	Articles Supplementary designating the Registrant's 7.625% Series E Cumulative Redeemable Preferred Stock, liquidation preference \$25.00 (incorporated by reference to Exhibit 3.12 to the Registrant's Registration Statement on Form 8-A filed July 12, 2016).
3.13	Articles Supplementary reclassifying the Registrant's 6% Series B Cumulative Convertible Preferred Stock, liquidation preference \$25.00 per share (incorporated by reference to Exhibit 3.13 to the Registrant's Registration Statement on Form 8-A filed July 27, 2017).

- [3.14](#) [Articles Supplementary designating the Registrant's 6.95% Series F Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, liquidation preference \\$25.00 per share \(incorporated by reference to Exhibit 3.14 to the Registrant's Registration Statement on Form 8-A filed July 27, 2017\).](#)
- [3.15](#) [Articles Supplementary reclassifying and designating \(1\) 7,412,500 authorized but unissued shares of the Registrant's preferred stock, \\$0.01 par value per share, without designation as to series or class, as shares of undesignated Common Stock; \(2\) 650,000 authorized but unissued shares of the Registrant's 7.625% Series C Cumulative Redeemable Preferred Stock, \\$0.01 par value per share, as shares of undesignated Common Stock; and \(3\) 3,400,000 authorized but unissued shares of the Registrant's 6.95% Series F Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, \\$0.01 par value per share, as shares of undesignated Common Stock. \(incorporated by reference to Exhibit 3.15 of the Registrant's Quarterly Report on Form 10-Q filed November 3, 2017\).](#)
- [3.16](#) [Articles Supplementary designating Annaly's 6.50% Series G Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, liquidation preference \\$25.00 per share \(incorporated by reference to Exhibit 3.16 to the Registrant's Registration Statement on Form 8-A filed January 10, 2018\).](#)
- [3.17](#) [Articles Supplementary reclassifying and designating \(i\) 11,500,000 authorized but unissued shares of the Registrant's preferred stock, \\$0.01 par value per share, without designation as to series or class, as shares of Registrant's undesignated common stock and \(ii\) 5,000,000 authorized but unissued shares of Registrant's 7.625% Series C Cumulative Redeemable Preferred Stock, \\$0.01 par value per share, as shares of Registrant's undesignated common stock \(incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q filed August 3, 2018\).](#)
- [3.18](#) [Form of Articles Supplementary designating Annaly's 8.125% Series H Cumulative Redeemable Preferred Stock, liquidation preference \\$25.00 per share \(incorporated by reference to Exhibit 3.17 to the Registrant's Registration Statement on Form 8-A filed September 7, 2018\).](#)
- [3.19](#) [Articles Supplementary reclassifying and designating 2,200,000 authorized but unissued shares of the Registrant's preferred stock, \\$0.01 par value per share, without designation as to series or class, as shares of undesignated Common Stock \(incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed June 3, 2019\).](#)
- [3.20](#) [Articles Supplementary designating Annaly's 6.750% Series I Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, liquidation preference \\$25.00 per share \(incorporated by reference to Exhibit 3.20 to the Registrant's Registration Statement on Form 8-A filed June 26, 2019\).](#)
- [3.21](#) [Articles Supplementary reclassifying and designating 7,000,000 authorized but unissued shares of Registrant's 7.625% Series C Cumulative Redeemable Preferred Stock, \\$0.01 par value per share, as shares of Registrant's undesignated common stock \(incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed July 22, 2019\).](#)
- [3.22](#) [Amended and Restated Bylaws of the Registrant, adopted December 13, 2018 \(incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed December 13, 2018\).](#)
- [4.1](#) [Specimen Common Stock Certificate \(incorporated by reference to Exhibit 4.1 to Amendment No. 1 to the Registrant's Registration Statement on Form S-11 \(Registration No. 333-32913\) filed September 17, 1997\).](#)
- [4.2](#) [Specimen Preferred Stock Certificate \(incorporated by reference to Exhibit 4.2 to the Registrant's Registration Statement on Form S-3 \(Registration No. 333-74618\) filed on December 5, 2001\).](#)
- [4.3](#) [Specimen Series C Preferred Stock Certificate \(incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed May 16, 2012\).](#)
- [4.4](#) [Specimen Series D Preferred Stock Certificate \(incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed September 13, 2012\).](#)
- [4.5](#) [Specimen Series E Preferred Stock Certificate \(incorporated by reference to Exhibit 4.7 to the Registrant's Registration Statement \(Registration No. 333-211140\) on Form S-4/A filed May 27, 2016\).](#)
- [4.6](#) [Specimen Series F Preferred Stock Certificate \(incorporated by reference to Exhibit 4.8 to the Registrant's Registration Statement on Form 8-A filed July 27, 2017\).](#)
- [4.7](#) [Specimen Series G Preferred Stock Certificate \(incorporated by reference to Exhibit 4.9 to the Registrant's Registration Statement on Form 8-A filed January 10, 2018\).](#)
- [4.8](#) [Specimen Series H Preferred Stock Certificate \(incorporated by reference to Exhibit 4.10 to the Registrant's Registration Statement on Form S-4A filed May 31, 2018\).](#)
- [4.9](#) [Specimen Series I Preferred Stock Certificate \(incorporated by reference to Exhibit 4.7 to the Registrant's Registration Statement on Form 8-A filed June 26, 2019\).](#)
- [4.10](#) [Indenture, dated as of February 12, 2010, between the Registrant and Wells Fargo Bank, National Association \(incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed February 12, 2010\).](#)
- [4.11](#) [Indenture, dated as of February 1, 2019, between the Registrant and Wells Fargo Bank, National Association \(incorporated by reference to Exhibit 4.7 to the Registrant's Current Report on Form S-3 filed February 1, 2019\).](#)

<u>4.12</u>	<u>Supplemental Indenture, dated as of February 12, 2010, between the Registrant and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed February 12, 2010).</u>
<u>4.13</u>	<u>Second Supplemental Indenture, dated as of May 14, 2012, between the Registrant and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed May 14, 2012).</u>
<u>4.14</u>	<u>Description of Securities †</u>
<u>10.1</u>	<u>Form of Master Repurchase Agreement (incorporated by reference to Exhibit 10.7 to the Registrant's Registration Statement on Form S-11 (Registration No. 333-32913) filed August 5, 1997).</u>
<u>10.2</u>	<u>Amended and Restated Management Agreement, by and between the Registrant and Annaly Capital Management LLC, dated as of August 1, 2018 (incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-Q filed August 3, 2018).*</u>
<u>10.3</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>10.4</u>	<u>Registrant's 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed June 1, 2010).*</u>
<u>10.5</u>	<u>Registrant's Deferred Compensation Plan for Directors (incorporated by reference to Exhibit 10.5 to the Registrant's Annual Report on Form 10-K filed February 23, 2017).*</u>
<u>10.6</u>	<u>Form of Indemnification Agreement (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed March 20, 2017).</u>
<u>21.1</u>	<u>Subsidiaries of Registrant.</u>
<u>23.1</u>	<u>Consent of Ernst & Young LLP.</u>
<u>31.1</u>	<u>Certification of Glenn A. Votek, Interim 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 Serena Wolfe, 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 Glenn A. Votek, Interim 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 Serena Wolfe, 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>
101.INS XBRL	The instance document does not appear in the interactive data file because its Extensible Business Reporting Language (XBRL) tags are embedded within the Inline XBRL document. The following documents are formatted in Inline XBRL: (i) Consolidated Statements of Financial Condition at December 31, 2019 and 2018; (ii) Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2019, 2018 and 2017; (iii) Consolidated Statements of Stockholders' Equity for the years ended December 31, 2019, 2018 and 2017; (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018 and 2017; and (v) Notes to Consolidated Financial Statements.
101.SCH XBRL	Taxonomy Extension Schema Document †
101.CAL XBRL	Taxonomy Extension Calculation Linkbase Document †
101.DEF XBRL	Additional Taxonomy Extension Definition Linkbase Document Created†
101.LAB XBRL	Taxonomy Extension Label Linkbase Document †
101.PRE XBRL	Taxonomy Extension Presentation Linkbase Document †
104	The cover page for the Registrant's Annual Report on Form 10-K for the year ended December 31, 2019 (formatted in Inline XBRL and contained in Exhibit 101).

* Exhibit Numbers 10.2, 10.3, 10.4 and 10.5 are management contracts or compensatory plans required to be filed as Exhibits to this Form 10-K.

† Submitted electronically herewith.

ITEM 16. FORM 10-K SUMMARY

None.

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Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of Annaly Capital Management, Inc. and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial condition of Annaly Capital Management, Inc. and Subsidiaries (the Company) as of December 31, 2019 and 2018, the related consolidated statements of comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended December 31, 2019, the related notes, and financial statement schedules III and IV, (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 13, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Valuation of mortgage servicing rights

*Description of
the Matter*

Fair value of mortgage servicing rights (“MSRs”) totaled \$378 million at December 31, 2019. As disclosed in Note 11 to the consolidated financial statements, the Company classifies its investments in MSRs as Level 3 in the fair value measurements hierarchy. These fair value estimates for MSRs primarily utilize discounted cash flow models that incorporate unobservable market data inputs including prepayment rates, delinquency rates, costs to service and discount rates.

Auditing the valuation of MSRs is complex and required the use of a specialist due to the high degree of judgment in management’s assumptions used in the measurement process which are unobservable in nature including prepayment rates, delinquency rates, costs to service and discount rates. These assumptions have a significant effect on the valuation of the MSRs.

*How We
Addressed the
Matter in Our
Audit*

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company’s processes to estimate the fair value of its MSRs, including management’s review of the completeness and accuracy of key inputs used in the discounted cash flow model, management’s independent review of assumptions through evaluating historical results and available market information, and management’s comparison of internally developed fair values to fair values obtained from third-party pricing providers.

To test the valuation of the MSRs, our audit procedures included, among others, evaluating the Company’s use of the discounted cash flow valuation technique, utilizing the support of a valuation specialist to independently assess whether the Company’s assumptions (e.g., prepayment rates, delinquency rates, costs to service and discount rates) were supportable based on market data, and independently developing a range of fair values for the MSRs. We compared management’s assumptions and fair value estimates to the assumptions and fair value ranges developed by the valuation specialist to assess management’s estimate of fair value.

Amortization of net premiums on residential securities

*Description of
the Matter*

Amortization of net premiums on residential securities totaled \$1.114 billion for the year ended December 31, 2019. As disclosed in Note 3 to the consolidated financial statements, the Company amortizes or accretes premiums or discounts into interest income for its residential mortgage-backed securities. Amortization or accretion is derived taking into account estimates of future principal prepayments, which are derived using third-party model and market information, in the calculation of the effective yield.

Auditing the amortization of net premiums on Agency mortgage-backed securities is complex due to the high degree of judgment in management’s assumptions used in the measurement process including prepayment rates which are uncertain in nature. These assumptions have a significant effect on the amortization of net premiums on securities.

*How We
Addressed the
Matter in Our
Audit*

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company’s processes to calculate amortization of net premiums on its Agency and Agency interest-only mortgage-backed securities, including management’s review of the completeness and accuracy of data (e.g. prepayment rates) used in the cash flow models and the calculation of projected cash flows.

To test the amortization of net premiums our audit procedures included, among others, evaluating the Company’s methodology and utilizing the support of a valuation specialist to independently develop ranges of prepayment rates for a sample of securities based on current industry, market and economic data. We compared management’s prepayment rates to the ranges developed by the valuation specialist to assess management’s estimate. We also recalculated management’s projected cash flows and the amortization of premiums or accretion of discounts for a sample of securities.

/s/ Ernst & Young LLP

We have served as the Company’s auditor since 2012.

New York, NY
February 13, 2020



ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(dollars in thousands, except per share data)

	December 31, 2019	December 31, 2018
Assets		
Cash and cash equivalents (includes pledged assets of \$1,648,545 and \$1,581,775, respectively) ⁽¹⁾	\$ 1,850,729	\$ 1,735,749
Securities (includes pledged assets of \$108,809,569 and \$87,193,316, respectively) ⁽²⁾	114,833,580	92,623,788
Loans, net (includes pledged assets of \$3,240,583 and \$2,997,051, respectively) ⁽³⁾	4,462,350	4,585,975
Mortgage servicing rights (includes pledged assets of \$3,336 and \$3,616, respectively)	378,078	557,813
Assets transferred or pledged to securitization vehicles	7,002,460	3,833,200
Real estate, net	725,638	739,473
Derivative assets	113,556	200,503
Reverse repurchase agreements	—	650,040
Receivable for unsettled trades	4,792	68,779
Principal and interest receivable	449,906	357,365
Goodwill and intangible assets, net	92,772	100,854
Other assets	381,220	333,988
Total assets	\$ 130,295,081	\$ 105,787,527
Liabilities and stockholders' equity		
Liabilities		
Repurchase agreements	\$ 101,740,728	\$ 81,115,874
Other secured financing	4,455,700	4,183,311
Debt issued by securitization vehicles	5,622,801	3,347,062
Mortgages payable	485,005	511,056
Derivative liabilities	803,866	889,750
Payable for unsettled trades	463,387	583,036
Interest payable	476,335	570,928
Dividends payable	357,527	394,129
Other liabilities	93,388	74,580
Total liabilities	114,498,737	91,669,726
Stockholders' equity		
Preferred stock, par value \$0.01 per share, 85,150,000 and 75,950,000 authorized, 81,900,000 and 73,400,000 issued and outstanding, respectively	1,982,026	1,778,168
Common stock, par value \$0.01 per share, 2,914,850,000 and 1,924,050,000 authorized, 1,430,106,199 and 1,313,763,450 issued and outstanding, respectively	14,301	13,138
Additional paid-in capital	19,966,923	18,794,331
Accumulated other comprehensive income (loss)	2,138,191	(1,979,865)
Accumulated deficit	(8,309,424)	(4,493,660)
Total stockholders' equity	15,792,017	14,112,112
Noncontrolling interests	4,327	5,689
Total equity	15,796,344	14,117,801
Total liabilities and equity	\$ 130,295,081	\$ 105,787,527

⁽¹⁾ Includes cash of consolidated Variable Interest Entities ("VIEs") of \$67.5 million and \$30.4 million at December 31, 2019 and 2018, respectively.

⁽²⁾ Excludes \$102.5 million and \$0 at December 31, 2019 and 2018, respectively, of agency mortgage-backed securities, \$468.0 million and \$83.6 million at December 31, 2019 and 2018, respectively, of non-Agency mortgage-backed securities and \$500.3 million and \$224.3 million at December 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.

⁽³⁾ Includes \$66.7 million and \$97.5 million of residential mortgage loans held for sale and \$0 and \$42.2 million of commercial mortgage loans held for sale at December 31, 2019 and 2018, respectively.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(dollars in thousands, except per share data)

	For The Years Ended December 31,		
	2019	2018	2017
Net interest income			
Interest income	\$ 3,787,297	\$ 3,332,563	\$ 2,493,126
Interest expense	2,784,875	1,897,860	1,008,354
Net interest income	1,002,422	1,434,703	1,484,772
Realized and unrealized gains (losses)			
Net interest component of interest rate swaps	351,375	100,553	(371,108)
Realized gains (losses) on termination or maturity of interest rate swaps	(1,442,964)	1,409	(160,133)
Unrealized gains (losses) on interest rate swaps	(1,210,276)	424,081	512,918
Subtotal	(2,301,865)	526,043	(18,323)
Net gains (losses) on disposal of investments	(47,944)	(1,124,448)	(3,938)
Net gains (losses) on other derivatives	(680,770)	(403,001)	261,438
Net unrealized gains (losses) on instruments measured at fair value through earnings	36,021	(158,082)	(39,684)
Loan loss provision	(16,569)	(3,496)	—
Subtotal	(709,262)	(1,689,027)	217,816
Total realized and unrealized gains (losses)	(3,011,127)	(1,162,984)	199,493
Other income (loss)	136,413	109,927	115,857
General and administrative expenses			
Compensation and management fee	170,628	179,841	164,322
Other general and administrative expenses	131,006	150,032	59,802
Total general and administrative expenses	301,634	329,873	224,124
Income (loss) before income taxes	(2,173,926)	51,773	1,575,998
Income taxes	(10,835)	(2,375)	6,982
Net income (loss)	(2,163,091)	54,148	1,569,016
Net income (loss) attributable to noncontrolling interests	(226)	(260)	(588)
Net income (loss) attributable to Annaly	(2,162,865)	54,408	1,569,604
Dividends on preferred stock	136,576	129,312	109,635
Net income (loss) available (related) to common stockholders	\$ (2,299,441)	\$ (74,904)	\$ 1,459,969
Net income (loss) per share available (related) to common stockholders			
Basic	\$ (1.60)	\$ (0.06)	\$ 1.37
Diluted	\$ (1.60)	\$ (0.06)	\$ 1.37
Weighted average number of common shares outstanding			
Basic	1,434,912,682	1,209,601,809	1,065,923,652
Diluted	1,434,912,682	1,209,601,809	1,066,351,616
Other comprehensive income (loss)			
Net income (loss)	\$ (2,163,091)	\$ 54,148	\$ 1,569,016
Unrealized gains (losses) on available-for-sale securities	4,135,862	(2,004,166)	(89,997)
Reclassification adjustment for net (gains) losses included in net income (loss)	(17,806)	1,150,321	49,870
Other comprehensive income (loss)	4,118,056	(853,845)	(40,127)
Comprehensive income (loss)	1,954,965	(799,697)	1,528,889
Comprehensive income (loss) attributable to noncontrolling interests	(226)	(260)	(588)
Comprehensive income (loss) attributable to Annaly	1,955,191	(799,437)	1,529,477
Dividends on preferred stock	136,576	129,312	109,635
Comprehensive income (loss) attributable to common stockholders	\$ 1,818,615	\$ (928,749)	\$ 1,419,842

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

(dollars in thousands)

	For The Years Ended December 31,		
	2019	2018	2017
Preferred stock			
Beginning of period	\$ 1,778,168	\$ 1,720,381	\$ 1,200,559
Issuance	428,324	411,335	696,910
Acquisition of subsidiary	—	55,000	—
Redemption	(224,466)	(408,548)	(177,088)
End of period	\$ 1,982,026	\$ 1,778,168	\$ 1,720,381
Common stock			
Beginning of period	\$ 13,138	\$ 11,596	\$ 10,189
Issuance	1,422	1,103	1,405
Buyback of common stock	(261)	—	—
Acquisition of subsidiary	—	436	—
Direct purchase and dividend reinvestment	2	3	2
End of period	\$ 14,301	\$ 13,138	\$ 11,596
Additional paid-in capital			
Beginning of period	\$ 18,794,331	\$ 17,221,265	\$ 15,579,342
Stock compensation expense	2,162	1,961	1,406
Issuance	1,397,484	1,116,409	1,646,201
Buyback of common stock	(223,313)	—	—
Acquisition of subsidiary	—	455,507	—
Redemption of preferred stock	(5,534)	(3,952)	(8,224)
Direct purchase and dividend reinvestment	1,793	3,141	2,540
End of period	\$ 19,966,923	\$ 18,794,331	\$ 17,221,265
Accumulated other comprehensive income (loss)			
Beginning of period	\$ (1,979,865)	\$ (1,126,020)	\$ (1,085,893)
Unrealized gains (losses) on available-for-sale securities	4,135,862	(2,004,166)	(89,997)
Reclassification adjustment for net gains (losses) included in net income (loss)	(17,806)	1,150,321	49,870
End of period	\$ 2,138,191	\$ (1,979,865)	\$ (1,126,020)
Accumulated deficit			
Beginning of period	\$ (4,493,660)	\$ (2,961,749)	\$ (3,136,017)
Net income (loss) attributable to Annaly	(2,162,865)	54,408	1,569,604
Dividends declared on preferred stock ⁽¹⁾	(136,576)	(129,312)	(109,635)
Dividends and dividend equivalents declared on common stock and share-based awards ⁽¹⁾	(1,516,323)	(1,457,007)	(1,285,701)
End of period	\$ (8,309,424)	\$ (4,493,660)	\$ (2,961,749)
Total stockholder's equity	\$ 15,792,017	\$ 14,112,112	\$ 14,865,473
Noncontrolling interests			
Beginning of period	\$ 5,689	\$ 6,100	\$ 7,792
Net income (loss) attributable to noncontrolling interests	(226)	(260)	(588)
Equity contributions from (distributions to) noncontrolling interests	(1,136)	(151)	(1,104)
End of period	\$ 4,327	\$ 5,689	\$ 6,100
Total equity	\$ 15,796,344	\$ 14,117,801	\$ 14,871,573

⁽¹⁾ 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
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	For The Years Ended December 31,		
	2019	2018	2017
Cash flows from operating activities			
Net income (loss)	\$ (2,163,091)	\$ 54,148	\$ 1,569,016
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities			
Amortization of premiums and discounts of investments, net	1,113,273	692,811	872,346
Amortization of securitized debt premiums and discounts and deferred financing costs	(11,854)	(3,439)	(3,596)
Depreciation, amortization and other noncash expenses	31,559	72,364	27,956
Net (gains) losses on disposals of investments	47,944	1,123,969	3,938
Net (gains) losses on investments and derivatives	1,855,025	136,673	(734,672)
Income from unconsolidated joint ventures	6,893	2,840	2,864
Loan loss provision	16,569	3,496	—
Payments on purchases of loans held for sale	(250,348)	(227,871)	(309,473)
Proceeds from sales and repayments of loans held for sale	282,693	97,913	410,285
Net receipts (payments) on derivatives	(1,939,634)	480,216	(233,915)
Net change in			
Due to / from brokers	—	—	(16)
Other assets	(39,880)	98,104	(58,715)
Interest receivable	(85,951)	(19,563)	(52,202)
Interest payable	(94,593)	295,640	89,777
Other liabilities	31,838	(185,283)	48,646
Net cash provided by (used in) operating activities	(1,199,557)	2,622,018	1,632,239
Cash flows from investing activities			
Payments on purchases of Residential Securities	(62,794,871)	(44,624,006)	(40,287,765)
Proceeds from sales of Residential Securities	25,513,227	33,256,888	13,402,428
Principal payments on Residential Securities	17,156,148	11,365,683	12,016,190
Payments on purchases of MSRs	—	(381)	(11,493)
Proceeds from sales of MSRs	—	—	33
Payments on purchases of corporate debt	(890,042)	(1,241,818)	(693,095)
Proceeds from sales of corporate debt	265,218	—	—
Principal payments on corporate debt	368,927	378,865	462,622
Originations and purchases of commercial real estate investments	(1,299,047)	(815,252)	(504,952)
Proceeds from sales of commercial real estate investments	193,846	150,059	11,960
Principal repayments on commercial real estate investments	1,968,621	1,504,032	1,669,900
Proceeds from sales of real estate	24,955	—	—
Proceeds from reverse repurchase agreements	98,339,755	85,318,562	67,675,100
Payments on reverse repurchase agreements	(97,689,715)	(85,030,351)	(67,675,100)
Distributions in excess of cumulative earnings from unconsolidated joint ventures	3,155	26,228	7,998
Payments on purchases of residential mortgage loans held for investment	(2,647,129)	(1,286,046)	(928,512)
Proceeds from repayments of residential mortgage loans held for investment	845,281	347,451	185,391
Payments on purchases of equity securities	—	—	(2,104)
Cash paid related to asset acquisition, net of cash acquired	—	(258,334)	—
Net payment from disposal of subsidiary	—	—	5,451
Net cash provided by (used in) investing activities	\$ (20,641,671)	(908,420)	(14,665,948)
Cash flows from financing activities			
Proceeds from repurchase agreements and other secured financing	5,470,733,256	5,117,155,986	3,606,915,741
Principal payments on repurchase agreements and other secured financing	(5,449,836,013)	(5,116,952,444)	(3,594,482,419)
Proceeds from issuances of securitized debt	3,444,055	920,142	—
Principal repayments on securitized debt	(2,031,959)	(1,384,333)	(1,022,994)
Payment of deferred financing cost	(12,228)	(1,072)	(2,054)

Principal payments on participation sold	—	—	(12,827)
Principal payments on mortgages payable	(26,202)	(716)	(2,365)
Net contributions (distributions) from (to) noncontrolling interests	(1,136)	(971)	(1,104)
Net proceeds from stock offerings, direct purchases and dividend reinvestments	1,829,025	1,532,356	2,347,058
Redemptions of preferred stock	(230,000)	(412,500)	(185,312)
Net payments on share repurchases	(223,574)	—	—
Dividends paid	(1,689,016)	(1,540,886)	(1,353,172)
Net cash provided by (used in) financing activities	21,956,208	(684,438)	12,200,552
Net (decrease) increase in cash and cash equivalents	\$ 114,980	\$ 1,029,160	\$ (833,157)
Cash and cash equivalents including cash pledged as collateral, beginning of period	1,735,749	706,589	1,539,746
Cash and cash equivalents including cash pledged as collateral, end of period	\$ 1,850,729	\$ 1,735,749	\$ 706,589
Supplemental disclosure of cash flow information			
Interest received	\$ 4,811,218	\$ 3,894,478	\$ 3,447,308
Dividends received	\$ 8,395	\$ 7,564	\$ 5,238
Interest paid (excluding interest paid on interest rate swaps)	\$ 2,902,644	\$ 1,726,887	\$ 987,958
Net interest received (paid) on interest rate swaps	\$ (323,028)	\$ (1,894)	\$ 369,660
Taxes received (paid)	\$ 2,284	\$ (295)	\$ (1,502)
Noncash investing activities			
Receivable for unsettled trades	\$ 4,792	\$ 68,779	\$ 1,232
Payable for unsettled trades	\$ 463,387	\$ 583,036	\$ 656,581
Net change in unrealized gains (losses) on available-for-sale securities, net of reclassification adjustment	\$ 4,118,056	\$ (853,845)	\$ (40,127)
Noncash financing activities			
Dividends declared, not yet paid	\$ 357,527	\$ 394,129	\$ 347,876
Securitized debt assumed through consolidation of VIEs	\$ 874,694	\$ —	\$ 315,111

See notes to consolidated financial statements.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 and 2017

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 optimize its returns through prudent management of its diversified investment strategies. 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 debt 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 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.

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.

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.

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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 \$1.6 billion at December 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. Items for which the fair value option has been elected are 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 interest-only securities, multifamily and reverse mortgages), taking into account 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

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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.

Standard	Description	Effective Date	Effect on the Financial Statements or Other Significant Matters
Standards that are not yet adopted			
ASU 2016-13 Financial instruments - 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)	The Company adopted the new standard on January 1, 2020. The ASU requires the measurement of expected credit losses under the CECL model 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 and loan commitments impacted by the adoption and established appropriate internal controls and is drafting financial statement disclosures. Key implementation efforts have included model testing and validation and development of internal controls. The Company recorded an increase in the allowance as a result of adoption of the new guidance, but the increase was not significant. Further, the amended guidance for available-for-sale debt securities did not have a significant impact to the Company’s securities portfolio.
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	The amendments are expected to result in fewer transactions being accounted for as business combinations.
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	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.

4. FINANCIAL INSTRUMENTS

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

Financial Instruments ⁽¹⁾				
Balance Sheet Line Item	Type / Form	Measurement Basis	December 31, 2019	December 31, 2018
Assets				
(dollars in thousands)				
Securities	Agency mortgage-backed securities ⁽²⁾	Fair value, with unrealized gains (losses) through other comprehensive income	\$ 112,124,958	\$ 89,840,322
Securities	Agency mortgage-backed securities ⁽³⁾	Fair value, with unrealized gains (losses) through earnings	768,409	912,673
Securities	Credit risk transfer securities	Fair value, with unrealized gains (losses) through earnings	531,322	552,097
Securities	Non-agency mortgage-backed securities	Fair value, with unrealized gains (losses) through earnings	1,135,868	1,161,938
Securities	Commercial real estate debt investments - CMBS	Fair value, with unrealized gains (losses) through other comprehensive income	64,655	138,242
Securities	Commercial real estate debt investments - CMBS ⁽⁴⁾	Fair value, with unrealized gains (losses) through earnings	208,368	18,516
Total securities			114,833,580	92,623,788
Loans, net	Residential mortgage loans	Fair value, with unrealized gains (losses) through earnings	1,647,787	1,359,806
Loans, net	Commercial real estate debt and preferred equity, held for investment	Amortized cost	669,713	1,296,803
Loans, net	Commercial loans held for sale, net	Lower of amortized cost or fair value	—	42,184
Loans, net	Corporate debt held for investment, net	Amortized cost	2,144,850	1,887,182
Total loans, net			4,462,350	4,585,975
Assets transferred or pledged to securitization vehicles	Agency mortgage-backed securities	Fair value, with unrealized gains (losses) through other comprehensive income	1,122,588	—
Assets transferred or pledged to securitization vehicles	Residential mortgage loans	Fair value, with unrealized gains (losses) through earnings	2,598,374	1,094,831
Assets transferred or pledged to securitization vehicles	Commercial mortgage loans	Fair value, with unrealized gains (losses) through earnings	2,345,120	2,738,369
Assets transferred or pledged to securitization vehicles	Commercial mortgage loans	Amortized cost	936,378	—
Total assets transferred or pledged to securitization vehicles			7,002,460	3,833,200
Reverse repurchase agreements	Reverse repurchase agreements	Amortized cost	—	650,040
Liabilities				
Repurchase agreements	Repurchase agreements	Amortized cost	101,740,728	81,115,874
Other secured financing	Loans	Amortized cost	4,455,700	4,183,311
Debt issued by securitization vehicles	Securities	Fair value, with unrealized gains (losses) through earnings	5,622,801	3,347,062
Mortgages payable	Loans	Amortized cost	485,005	511,056

⁽¹⁾ Receivable for unsettled trades, Principal and 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 years ended December 31, 2019, 2018 and 2017.

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, excluding securities transferred or pledged to securitization vehicles, for the year ended December 31, 2019:

	Residential Securities		Commercial Securities		Total
	(dollars in thousands)				
Beginning balance January 1, 2019	\$	92,467,030	\$	156,758	\$ 92,623,788
Purchases		62,703,862		244,820	62,948,682
Sales and transfers ⁽¹⁾		(26,506,345)		(92,366)	(26,598,711)
Principal paydowns		(17,180,225)		(43,746)	(17,223,971)
(Amortization) / accretion		(1,114,344)		778	(1,113,566)
Fair value adjustment		4,190,579		6,779	4,197,358
Ending balance December 31, 2019	\$	114,560,557	\$	273,023	\$ 114,833,580

⁽¹⁾ Includes transfers to securitization vehicles.

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The following tables present the Company's securities portfolio, excluding securities transferred or pledged to securitization vehicles, that was carried at their fair value at December 31, 2019 and 2018:

	December 31, 2019						
	Principal / Notional	Remaining Premium	Remaining Discount	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Agency	(dollars in thousands)						
Fixed-rate pass-through	\$ 102,448,565	\$ 4,345,053	\$ (46,614)	\$ 106,747,004	\$ 2,071,583	\$ (95,173)	\$ 108,723,414
Adjustable-rate pass-through	1,474,818	72,245	(1,400)	1,545,663	10,184	(31,516)	1,524,331
CMO	156,937	2,534	—	159,471	545	—	160,016
Interest-only	4,486,845	862,905	—	862,905	2,787	(157,130)	708,562
Multifamily	1,619,900	19,981	(2,280)	1,637,601	82,292	(2,696)	1,717,197
Reverse mortgages	54,553	5,053	—	59,606	550	(309)	59,847
Total agency securities	\$ 110,241,618	\$ 5,307,771	\$ (50,294)	\$ 111,012,250	\$ 2,167,941	\$ (286,824)	\$ 112,893,367
Residential credit							
CRT ⁽¹⁾	\$ 517,110	\$ 15,850	\$ (2,085)	\$ 515,950	\$ 16,605	\$ (1,233)	\$ 531,322
Alt-A	160,957	250	(22,306)	138,901	12,482	—	151,383
Prime	277,076	3,362	(17,794)	262,644	14,142	(529)	276,257
Prime interest-only	391,234	3,757	—	3,757	—	(590)	3,167
Subprime	370,263	1,356	(59,727)	311,892	37,205	(118)	348,979
NPL/RPL	164,180	351	(440)	164,091	191	(14)	164,268
Prime jumbo (>=2010 vintage)	182,709	1,026	(4,281)	179,454	5,360	(150)	184,664
Prime jumbo (>=2010 vintage) Interest-only	554,189	9,001	—	9,001	—	(1,851)	7,150
Total residential credit securities	\$ 2,617,718	\$ 34,953	\$ (106,633)	\$ 1,585,690	\$ 85,985	\$ (4,485)	\$ 1,667,190
Total Residential Securities	\$ 112,859,336	\$ 5,342,724	\$ (156,927)	\$ 112,597,940	\$ 2,253,926	\$ (291,309)	\$ 114,560,557
Commercial							
Commercial Securities	\$ 263,965	10,873	\$ (9,393)	\$ 265,445	\$ 7,710	\$ (132)	\$ 273,023
Total securities	\$ 113,123,301	\$ 5,353,597	\$ (166,320)	\$ 112,863,385	\$ 2,261,636	\$ (291,441)	\$ 114,833,580

	December 31, 2018						
	Principal / Notional	Remaining Premium	Remaining Discount	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Agency	(dollars in thousands)						
Fixed-rate pass-through	\$ 81,144,650	\$ 3,810,808	\$ (36,987)	\$ 84,918,471	\$ 264,443	\$ (2,130,362)	\$ 83,052,552
Adjustable-rate 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 investments	\$ 93,835,696	\$ 5,255,201	\$ (43,656)	\$ 93,040,233	\$ 305,893	\$ (2,593,131)	\$ 90,752,995
Residential credit							
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

⁽¹⁾ Principal/Notional amount includes \$14.9 million of a CRT interest-only security as of December 31, 2019.

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The following table presents the Company's Agency mortgage-backed securities portfolio, excluding securities transferred or pledged to securitization vehicles, by issuing Agency at December 31, 2019 and 2018:

Investment Type	December 31, 2019		December 31, 2018	
	(dollars in thousands)			
Fannie Mae	\$	76,656,831	\$	60,270,432
Freddie Mac		36,087,100		30,397,556
Ginnie Mae		149,436		85,007
Total	\$	112,893,367	\$	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 affected by periodic payments and prepayments of principal on the underlying mortgages.

The following table summarizes the Company's Residential Securities, excluding securities transferred or pledged to securitization vehicles, at December 31, 2019 and 2018, according to their estimated weighted average life classifications:

Estimated weighted average life	December 31, 2019		December 31, 2018	
	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost
	(dollars in thousands)			
Less than one year	\$ 3,997	\$ 4,543	\$ 13,447	\$ 13,670
Greater than one year through five years	36,290,254	35,581,833	11,710,172	11,928,973
Greater than five years through ten years	77,732,756	76,504,845	80,202,479	82,218,464
Greater than ten years	533,550	506,719	540,932	536,594
Total	\$ 114,560,557	\$ 112,597,940	\$ 92,467,030	\$ 94,697,701

The estimated weighted average lives of the Residential Securities at December 31, 2019 and 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 December 31, 2019 and 2018.

	December 31, 2019			December 31, 2018		
	Estimated Fair Value ⁽¹⁾	Gross Unrealized Losses ⁽¹⁾	Number of Securities ⁽¹⁾	Estimated Fair Value ⁽¹⁾	Gross Unrealized Losses ⁽¹⁾	Number of Securities ⁽¹⁾
	(dollars in thousands)					
Less than 12 months	\$ 7,388,239	\$ (24,056)	139	\$ 22,418,036	\$ (432,352)	713
12 Months or more	11,619,280	(105,329)	352	43,134,843	(1,853,257)	1,476
Total	\$ 19,007,519	\$ (129,385)	491	\$ 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 year ended December 31, 2019, the Company disposed of \$25.5 billion of Residential Securities, resulting in a net realized loss of (\$37.8) million. During the year ended December 31, 2018, the Company disposed of \$45.6 billion of Residential Securities, resulting in a net realized loss of (\$1.1) billion. During the year ended December 31, 2017, the Company disposed of \$12.9 billion of Residential Securities, resulting in a net realized loss of (\$6.4) million.

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 December 31, 2019 and 2018, the Company reported \$1.6 billion and \$1.4 billion, respectively, 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.

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The Company recorded loan loss provisions of \$16.6 million and \$3.5 million for the years ended December 31, 2019 and 2018, respectively, on loans with aggregate principal balances of \$63.2 million and \$7.0 million as of December 31, 2019 and 2018, respectively and carrying values of \$43.1 million and \$3.5 million as of December 31, 2019 and 2018, respectively. There was no provision for loan loss recorded for the year ended December 31, 2017.

As of December 31, 2019 and 2018, the Company's loan loss provision was \$20.1 million and \$3.5 million, respectively.

The following table presents the activity of the Company's loan investments, including loans held for sale and excluding loans transferred or pledged to securitization vehicles, for the year ended December 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	2,905,112	589,530	890,042	4,384,684
Sales and transfers ⁽¹⁾	(2,417,798)	(1,085,230)	(265,218)	(3,768,246)
Principal payments	(190,336)	(166,801)	(368,927)	(726,064)
Gains / (losses)	(6,130)	(9,207)	(5,498)	(20,835)
(Amortization) / accretion	(2,867)	2,434	7,269	6,836
Ending balance December 31, 2019	\$ 1,647,787	\$ 669,713	\$ 2,144,850	\$ 4,462,350

⁽¹⁾ Includes securitizations, syndications and transfers to securitization vehicles.

The carrying value of the Company's residential loans held for sale was \$66.7 million and \$97.5 million at December 31, 2019 and 2018, respectively. The carrying value of the Company's commercial loans held for sale was \$0 and \$42.2 million at December 31, 2019 and 2018, respectively.

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. 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 December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018
	(dollars in thousands)	
Fair value	\$ 4,246,161	\$ 2,454,637
Unpaid principal balance	\$ 4,133,149	\$ 2,425,657

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

	For the Years Ended	
	December 31, 2019	December 31, 2018
	(dollars in thousands)	
Interest income	\$ 150,066	\$ 83,259
Net gains (losses) on disposal of investments	(18,619)	(12,934)
Net unrealized gains (losses) on instruments measured at fair value through earnings	51,290	1,102
Total included in net income (loss)	\$ 182,737	\$ 71,427

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

Geographic Concentrations of Residential Mortgage Loans			
December 31, 2019		December 31, 2018	
Property location	% of Balance	Property location	% of Balance
California	52.1%	California	53.7%
New York	10.5%	Florida	7.1%
Florida	5.3%	New York	6.6%
All other (none individually greater than 5%)	32.1%	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 December 31, 2019 and 2018:

	December 31, 2019		December 31, 2018	
	Portfolio Range	Portfolio Weighted Average	Portfolio Range	Portfolio Weighted Average
	(dollars in thousands)			
Unpaid principal balance	\$1 - \$3,448	\$459	\$0 - \$3,500	\$457
Interest rate	2.00% - 8.38%	4.94%	2.00% - 7.75%	4.72%
Maturity	1/1/2028 - 12/1/2059	12/29/2047	1/1/2028 - 11/1/2058	1/11/2046
FICO score at loan origination	505 - 829	758	505 - 823	752
Loan-to-value ratio at loan origination	8% - 105%	67%	8% - 111%	68%

At December 31, 2019 and 2018, approximately 36% 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 and preferred equity interests 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.

At December 31, 2019, the Company had unfunded commercial real estate loan commitments of \$181.4 million.

At December 31, 2019 and 2018, approximately 92% 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 December 31, 2019 and 2018, commercial real estate investments held for investment were comprised of the following:

	December 31, 2019			December 31, 2018		
	Outstanding Principal	Carrying Value ⁽¹⁾	Percentage of Loan Portfolio ⁽²⁾	Outstanding Principal	Carrying Value ⁽¹⁾	Percentage of Loan Portfolio ⁽²⁾
	(dollars in thousands)					
Senior mortgages	\$ 503,499	\$ 499,690	30.9%	\$ 988,248	\$ 981,202	75.6%
Senior securitized mortgages ⁽³⁾	940,546	936,378	57.8%	—	—	—%
Mezzanine loans	183,064	170,023	11.3%	319,663	315,601	24.4%
Total	\$ 1,627,109	\$ 1,606,091	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 December 31, 2019 and 2018, respectively.

⁽²⁾ Based on outstanding principal.

⁽³⁾ Assets of consolidated VIEs.

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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 December 31, 2019 and 2018:

December 31, 2019				
	Senior Mortgages	Senior Securitized Mortgages ⁽¹⁾	Mezzanine Loans	Total
(dollars in thousands)				
Net carrying value (January 1, 2019)	\$ 981,202	\$ —	\$ 315,601	\$ 1,296,803
Originations & advances (principal)	572,204	—	21,709	593,913
Principal payments	(16,785)	(150,245)	(149,633)	(316,663)
Transfers	(1,034,754)	1,083,487	(8,675)	40,058
Net (increase) decrease in origination fees	(4,200)	—	(184)	(4,384)
Amortization of net origination fees	2,023	3,136	412	5,571
Allowance for loan losses	—	—	(9,207)	(9,207)
Net carrying value (December 31, 2019)	\$ 499,690	\$ 936,378	\$ 170,023	\$ 1,606,091

December 31, 2018				
	Senior Mortgages	Mezzanine Loans	Preferred 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 December 31, 2019 and 2018.

December 31, 2019										
Investment Type	Outstanding Principal	Percentage of CRE Debt and Preferred Equity Portfolio	Internal Ratings						Total	
			Performing	Performing - Closely Monitored	Performing - Special Mention	Substandard ⁽¹⁾	Doubtful ⁽²⁾	Loss ⁽³⁾		
(dollars in thousands)										
Senior mortgages	\$ 503,499	30.9%	\$ 94,711	\$ 253,069	\$ 112,619	\$ 43,100	\$ —	\$ —	\$ —	\$ 503,499
Senior securitized mortgages ⁽⁴⁾	940,546	57.8%	429,209	333,942	127,395	50,000	—	—	—	940,546
Mezzanine loans	183,064	11.3%	60,156	62,205	—	17,100	36,603	7,000	—	183,064
Total	\$ 1,627,109	100.0%	\$ 584,076	\$ 649,216	\$ 240,014	\$ 110,200	\$ 36,603	\$ 7,000	\$ —	\$ 1,627,109

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December 31, 2018										
Investment Type	Outstanding Principal	Percentage of CRE Debt and Preferred Equity Portfolio	Internal Ratings							Total
			Performing	Performing - Closely Monitored	Performing - Special Mention	Substandard ⁽¹⁾	Doubtful ⁽²⁾	Loss		
(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 three loans as of December 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.

⁽²⁾ The Company rated one loan as Doubtful and evaluated for impairment for which a loan loss allowance of \$5.7 million was recognized for the year ended December 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 year ended December 31, 2018.

⁽³⁾ The Company transferred a loan from Doubtful to Loss during the year ended December 31, 2019.

⁽⁴⁾ 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. As of and for the year ended December 31, 2019, the Company recorded a loan loss provision of \$7.4 million on a corporate loan with a principal balance and carrying value of \$19.6 million and \$12.2 million, respectively. There was no provision for loan loss recorded for the years ended December 31, 2018 and 2017. As of December 31, 2019, the Company had unfunded corporate loan commitments of \$81.2 million.

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

	Industry Dispersion					
	December 31, 2019			December 31, 2018		
	Fixed Rate	Floating Rate	Total	Fixed Rate	Floating Rate	Total
	(dollars in thousands)					
Aircraft and parts	\$ —	\$ —	\$ —	\$ —	\$ 41,342	\$ 41,342
Arrangement of transportation of freight & cargo	—	—	—	—	21,632	21,632
Chemicals & Allied Products	—	15,002	15,002	—	—	—
Coating, engraving and allied services	—	47,249	47,249	—	57,223	57,223
Computer programming, data processing & other computer related services	—	394,193	394,193	—	242,185	242,185
Drugs	—	15,923	15,923	—	35,882	35,882
Electrical work	—	43,175	43,175	—	41,760	41,760
Electronic components & accessories	—	24,000	24,000	—	24,059	24,059
Engineering, architectural & surveying	—	124,201	124,201	—	80,748	80,748
Grocery stores	—	23,248	23,248	—	23,431	23,431
Home health care services	—	29,361	29,361	—	—	—
Insurance agents, brokers and services	—	75,410	75,410	—	48,942	48,942
Mailing, reproduction, commercial art and photography, and stenographic	—	14,755	14,755	—	14,843	14,843
Management and public relations services	—	339,179	339,179	—	487,046	487,046
Medical and dental laboratories	—	41,344	41,344	—	26,858	26,858
Metal cans & shipping containers	—	118,456	118,456	—	118,248	118,248
Miscellaneous business services	—	164,033	164,033	—	19,622	19,622
Miscellaneous equipment rental and leasing	—	49,776	49,776	—	49,552	49,552
Miscellaneous health and allied services, not elsewhere classified	—	78,908	78,908	—	56,003	56,003
Miscellaneous plastic products	—	10,000	10,000	—	9,953	9,953
Motor vehicles and motor vehicle equipment	—	—	—	—	16,563	16,563
Motor vehicles and motor vehicle parts and supplies	—	28,815	28,815	—	29,046	29,046
Nonferrous foundries (castings)	—	30,191	30,191	—	12,948	12,948
Offices and clinics of doctors of medicine	—	106,993	106,993	—	97,877	97,877
Offices of clinics and other health practitioners	—	10,098	10,098	—	21,100	21,100
Petroleum and petroleum products	—	24,923	24,923	—	—	—
Public warehousing and storage	—	107,029	107,029	—	84,278	84,278
Research, development and testing services	—	45,610	45,610	—	33,381	33,381
Schools and educational services, not elsewhere classified	—	19,586	19,586	—	19,805	19,805
Services allied with the exchange of securities	—	—	—	—	14,877	14,877
Surgical, medical, and dental instruments and supplies	—	102,182	102,182	—	96,607	96,607
Telephone communications	—	61,210	61,210	—	61,371	61,371
Total	\$ —	\$ 2,144,850	\$ 2,144,850	\$ —	\$ 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 December 31, 2019 and 2018.

	December 31, 2019		December 31, 2018	
	(dollars in thousands)			
First lien loans	\$	1,396,140	\$	1,346,356
Second lien loans		748,710		540,826
Total	\$	2,144,850	\$	1,887,182

7. MORTGAGE SERVICING RIGHTS

The Company owns variable interests in an entity that invests in MSR. 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 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 the years ended December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018
	(dollars in thousands)	
Fair value, beginning of period	\$ 557,813	\$ 580,860
Other ⁽¹⁾	—	(4)
Change in fair value due to		
Changes in valuation inputs or assumptions ⁽²⁾	(102,016)	56,721
Other changes, including realization of expected cash flows	(77,719)	(79,764)
Fair value, end of period	\$ 378,078	\$ 557,813

⁽¹⁾ Includes adjustments to original purchase price from early payoffs, defaults, or loans that were delivered but were deemed to be not acceptable.

⁽²⁾ Principally represents changes in discount rates and prepayment speed inputs used in valuation model, primarily due to changes in interest rates.

For the years ended December 31, 2019 and 2018, the Company recognized \$108.0 million and \$112.7 million of net servicing income from MSRs in Other income (loss) in the Consolidated Statements of Comprehensive Income (Loss).

8. VARIABLE INTEREST ENTITIES

Commercial Trusts

The Company has invested in subordinate mortgage-backed securities issued by commercial securitization trusts (“Commercial Trusts”) and determined that it is the primary beneficiary as a result of its ability to replace the special servicer without cause through its ownership of the subordinate securities and its current designation as the directing certificate holder. Information regarding these securitization trusts are summarized in the table below.

Type of Underlying Collateral	Settlement Date	Cut-off Date	Principal Balance	Face Value of Company's Variable Interest at Settlement Date
(dollars in thousands)				
Multifamily	April 2015	\$	1,192,607	\$ 89,446
Hotels	June 2018	\$	982,000	\$ 93,500
Multifamily	August 2019	\$	271,700	\$ 20,270
Office Building	October 2019	\$	60,000	\$ 60,000
Multifamily	October 2019	\$	415,000	\$ 75,359
Multifamily	December 2019	\$	394,000	\$ 110,350

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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 and commercial 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 \$2.3 billion and \$2.7 billion at December 31, 2019 and 2018, respectively. At December 31, 2019 and 2018, 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 December 31, 2019 and 2018 based upon the Company's process of monitoring events of default on the underlying mortgage loans.

Commercial Securitizations

The Company also invests in commercial mortgage-backed securities issued by entities that are VIEs because they do not have sufficient equity at risk for the entities to finance their activities without additional subordinated financial support from other parties, but the Company is not the primary beneficiary because it does not have the power to direct the activities that most significantly impact the VIEs' economic performance. For these entities, the Company's maximum exposure to loss is the amortized cost basis of the securities it owns and it does not provide any liquidity arrangements, guarantees or other commitments to these VIEs. See the "Securities" Note for further information on Commercial Securities.

Collateralized Loan Obligation

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 December 31, 2019 a total of \$635.7 million of notes were held by third parties and the Company retained or purchased \$223.9 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 that were expensed as incurred during the year ended December 31, 2019. The aggregate unpaid principal balance of loans in the CLO was \$857.3 million at December 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 December 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 \$633.9 million at December 31, 2019.

Multifamily Securitization

In November 2019, the Company repackaged multifamily mortgage-backed securities with a principal cut-off balance of \$1.0 billion and retained interest only securities with a notional balance of \$1.0 billion and senior securities with a principal balance of \$28.5 million. The Company determined that it was the primary beneficiary based upon its involvement in the design of the variable interest entity. The Company incurred \$1.9 million of costs in connection with this multifamily securitization that were expensed as incurred during the year ended December 31, 2019.

Residential Trusts

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

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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 \$57.3 million and \$72.1 million at December 31, 2019 and 2018, respectively.

Residential Securitizations

The Company also invests in residential mortgage-backed securities issued by entities that are VIEs because they do not have sufficient equity at risk for the entities to finance their activities without additional subordinated financial support from other parties, but the Company is not the primary beneficiary because it does not have the power to direct the activities that most significantly impact the VIEs' economic performance. For these entities, the Company's maximum exposure to loss is the amortized cost basis of the securities it owns and it does not provide any liquidity arrangements, guarantees or other commitments to these VIEs. See the "Securities" Note for further information on Residential Securities.

OBX Trusts

The entities in the table below 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.

Securitization	Date of Closing	Face Value at Closing
		(dollars in thousands)
OBX 2018-1	March 2018	\$ 327,162
OBX 2018-EXP1	August 2018	\$ 383,451
OBX 2018-EXP2	October 2018	\$ 384,027
OBX 2019-INV1	January 2019	\$ 393,961
OBX 2019-EXP1	April 2019	\$ 388,156
OBX 2019-INV2	June 2019	\$ 383,760
OBX 2019-EXP2	July 2019	\$ 463,405
OBX 2019-EXP3	October 2019	\$ 465,492

As of December 31, 2019 and 2018, a total of \$2.0 billion and \$766.5 million, respectively, of bonds were held by third parties and the Company retained \$565.7 million and \$221.3 million, respectively, 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. During the years ended December 31, 2019 and 2018, the Company incurred \$9.0 million and \$5.4 million, respectively, of costs in connection with these securitizations that were expensed as incurred. The contractual principal amount of the OBX Trusts' debt held by third parties was \$1.9 billion and \$769.0 million at December 31, 2019 and 2018, respectively.

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.

Credit Facility VIEs

In June 2016, a consolidated subsidiary of the Company entered into a credit facility with a third party financial institution. As of December 31, 2019 and 2018, the borrowing limit on this facility was \$625.0 million and \$400.0 million, respectively. 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 \$741.3 million and \$568.7 million at December 31, 2019 and 2018, respectively. The transfers did not qualify for sale accounting and are reflected as an intercompany secured borrowing that is eliminated upon consolidation. At December 31, 2019 and 2018, the subsidiary had an intercompany receivable of \$426.6 million and \$376.6 million, respectively, which eliminates upon consolidation and an Other secured financing of \$426.6 million and \$376.6 million, respectively, to the third party financial institution.

In July 2017, a consolidated subsidiary of the Company entered into a credit facility with a third party financial institution. As of December 31, 2019 and 2018, the borrowing limit on this facility was \$320.0 million and \$150.0 million, respectively. 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

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corporate loans to the subsidiary with a carrying amount of \$413.7 million and \$234.8 million at December 31, 2019 and 2018, respectively, which continue to be reflected in the Company's Consolidated Statements of Financial Condition under Loans, net. At December 31, 2019 and 2018, the subsidiary had an Other secured financing of \$244.2 million and \$150.0 million, respectively, to the third party financial institution.

In January 2019, a consolidated subsidiary of the Company (the "Borrower") entered into a \$300.0 million credit facility with a third party financial institution. At of December 31, 2019, the Borrower had an Other secured financing of \$157.5 million to the third party financial institution.

MSR Silo

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.

The Company's exposure to the obligations of its VIEs is generally limited to the Company's investment in the VIEs of \$3.3 billion at December 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, multifamily securitization 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 December 31, 2019 and 2018 are as follows:

December 31, 2019					
	Commercial Trusts		Residential Trusts		MSR Silo
Assets	(dollars in thousands)				
Cash and cash equivalents	\$	—	\$	—	\$ 67,455
Loans		—		—	66,722
Assets transferred or pledged to securitization vehicles		2,345,120		75,924	—
Mortgage servicing rights		—		—	378,078
Principal and interest receivable		7,085		408	—
Other assets		—		—	27,021
Total assets	\$	2,352,205	\$	76,332	\$ 539,276
Liabilities					
Debt issued by securitization vehicles (non-recourse)	\$	1,967,523	\$	57,905	\$ —
Other secured financing		—		—	38,981
Payable for unsettled trades		—		—	18,364
Interest payable		3,008		137	—
Other liabilities		—		78	2,393
Total liabilities	\$	1,970,531	\$	58,120	\$ 59,738

December 31, 2018			
	Commercial Trusts	Residential Trusts	MSR Silo
(dollars in thousands)			
Assets			
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
Principal and 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 December 31, 2019 are as follows:

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)					
California	\$ 1,270,650	38.7%	California	\$ 34,578	45.9%
Texas	478,048	14.5%	Texas	10,116	13.4%
New York	353,800	10.8%	Illinois	7,055	9.4%
Other ⁽¹⁾	1,184,587	36.0%	Washington	3,880	5.1%
			Other ⁽¹⁾	19,753	26.2%
Total	\$ 3,287,085	100.0%		\$ 75,382	100.0%

⁽¹⁾ 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 December 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

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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.

There were no acquisitions of new real estate holdings during the year ended December 31, 2019. The Company acquired real estate holdings in connection with the acquisition of MTGE Investment Corp. ("MTGE" and such acquisition, the "MTGE Acquisition") during the year ended December 31, 2018; refer to the "Acquisition of MTGE Investment Corp." Note for additional information. The company sold two of its wholly owned triple net leased properties during the year ended December 31, 2019 for \$25.2 million and recognized a gain on sale of \$7.5 million. There were no dispositions of real estate holdings during the year ended December 31, 2018.

The weighted average amortization period for intangible assets and liabilities at December 31, 2019 is 6.0 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.

	December 31, 2019	December 31, 2018
Real estate, net	(dollars in thousands)	
Land	\$ 121,720	\$ 128,742
Buildings and improvements	571,396	581,320
Furniture, fixtures and equipment	11,238	11,602
Subtotal	704,354	721,664
Less: accumulated depreciation	(87,532)	(67,026)
Total real estate held for investment, at amortized cost, net	616,822	654,638
Equity in unconsolidated joint ventures	108,816	84,835
Total real estate, net	\$ 725,638	\$ 739,473

Depreciation expense was \$23.7 million and \$18.1 million for the years ended December 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 December 31, 2019 for consolidated investments in real estate are as follows:

December 31, 2019		
(dollars in thousands)		
2020	\$	46,885
2021		46,758
2022		42,918
2023		40,211
2024		34,332
Later years		177,936
Total	\$	389,040

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 December 31, 2019 and 2018, \$517.8 million and (\$496.2) million, respectively, of variation margin was reported as an adjustment 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. The Company may enter into interest rate swap agreements where the floating leg is linked to the London Interbank Offered Rate (“LIBOR”), the overnight index swap rate or another index. 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

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and pay and receive interest rates in the future. The Company's swaptions 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 are estimated using internal pricing models and compared to the counterparty market values.

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.

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.

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

Derivatives Instruments	December 31, 2019		December 31, 2018	
Assets				
	(dollars in thousands)			
Interest rate swaps	\$	1,199	\$	48,114
Interest rate swaptions		11,580		7,216
TBA derivatives		15,181		141,688
Futures contracts		77,889		—
Purchase commitments		2,050		844
Credit derivatives ⁽¹⁾		5,657		2,641
	\$	113,556	\$	200,503
Liabilities				
Interest rate swaps	\$	706,862	\$	420,365
TBA derivatives		11,316		—
Futures contracts		84,781		462,309
Purchase commitments		907		33
Credit derivatives ⁽¹⁾		—		7,043
	\$	803,866	\$	889,750

⁽¹⁾ The notional amount of the credit derivatives in which the Company purchased protection was \$10.0 million and \$30.0 million at December 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 \$345.0 million and \$451.0 million at December 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 AA and BBB-.

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

December 31, 2019				
Maturity	Current Notional ⁽¹⁾⁽²⁾	Weighted Average Pay Rate	Weighted Average Receive Rate	Weighted Average Years to Maturity
(dollars in thousands)				
0 - 3 years	\$ 38,942,400	1.60%	1.84%	1.29
3 - 6 years	16,097,450	1.77%	1.87%	4.30
6 - 10 years	16,176,500	2.20%	2.02%	9.00
Greater than 10 years	2,930,000	3.76%	1.86%	17.88
Total / Weighted average	\$ 74,146,350	1.84%	1.89%	4.23

December 31, 2018				
Maturity	Current Notional ⁽¹⁾⁽²⁾	Weighted Average Pay Rate	Weighted Average Receive 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

⁽¹⁾ As of December 31, 2019, 75% and 25% of the Company's interest rate swaps were linked to LIBOR and the overnight index swap rate, respectively. As of December 31, 2018, all of the Company's interest rate swaps were linked to LIBOR.

⁽²⁾ There were no forward starting swaps at December 31, 2019 and December 31, 2018.

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

December 31, 2019					
	Current Underlying Notional	Weighted Average Underlying Fixed Rate	Weighted Average Underlying Floating Rate	Weighted Average Underlying Years to Maturity	Weighted Average Months to Expiration
(dollars in thousands)					
Long pay	\$4,675,000	2.53%	3M LIBOR	9.22	4.66
Long receive	\$2,000,000	1.49%	3M LIBOR	10.29	3.40

December 31, 2018					
	Current Underlying Notional	Weighted Average Underlying Fixed Rate	Weighted Average Underlying Floating Rate	Weighted Average Underlying Years to Maturity	Weighted Average Months to Expiration
(dollars in thousands)					
Long pay	\$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 December 31, 2019 and 2018:

December 31, 2019				
Purchase and sale contracts for derivative TBAs	Notional	Implied Cost Basis	Implied Market Value	Net Carrying Value
(dollars in thousands)				
Purchase contracts	\$ 10,043,000	\$ 10,182,891	\$ 10,192,038	\$ 9,147
Sale contracts	(3,144,000)	(3,294,486)	(3,299,768)	(5,282)
Net TBA derivatives	<u>\$ 6,899,000</u>	<u>\$ 6,888,405</u>	<u>\$ 6,892,270</u>	<u>\$ 3,865</u>

December 31, 2018				
Purchase and sale contracts for derivative TBAs	Notional	Implied Cost Basis	Implied Market Value	Net Carrying 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 December 31, 2019 and 2018:

December 31, 2019			
	Notional - Long Positions	Notional - Short Positions	Weighted Average Years to Maturity
(dollars in thousands)			
U.S. Treasury futures - 2 year	\$ —	\$ (180,000)	1.96
U.S. Treasury futures - 5 year	—	(2,953,300)	4.42
U.S. Treasury futures - 10 year and greater	2,600,000	(5,806,400)	9.74
Total	<u>\$ 2,600,000</u>	<u>\$ (8,939,700)</u>	<u>8.26</u>

December 31, 2018			
	Notional - Long Positions	Notional - Short Positions	Weighted Average Years to Maturity
(dollars in thousands)			
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	<u>\$ —</u>	<u>\$ (18,678,000)</u>	<u>5.86</u>

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.

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

December 31, 2019					
	Gross Amounts	Amounts Eligible for Offset		Net Amounts	
		Financial Instruments	Cash Collateral		
(dollars in thousands)					
Assets					
Interest rate swaps, at fair value	\$ 1,199	\$ (951)	\$ —	\$ 248	
Interest rate swaptions, at fair value	11,580	—	—	11,580	
TBA derivatives, at fair value	15,181	(5,018)	—	10,163	
Futures contracts, at fair value	77,889	(10,902)	—	66,987	
Purchase commitments	2,050	—	—	2,050	
Credit derivatives	5,657	—	—	5,657	
Liabilities					
Interest rate swaps, at fair value	\$ 706,862	\$ (951)	\$ (104,205)	\$ 601,706	
TBA derivatives, at fair value	11,316	(5,018)	—	6,298	
Futures contracts, at fair value	84,781	(10,902)	(73,879)	—	
Purchase commitments	907	—	—	907	

December 31, 2018					
	Gross Amounts	Amounts Eligible for Offset		Net Amounts	
		Financial Instruments	Cash Collateral		
(dollars in thousands)					
Assets					
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)	—	—	
Liabilities					
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 Interest Component of Interest Rate Swaps	Realized Gains (Losses) on Termination of Interest Rate Swaps	Unrealized Gains (Losses) on Interest Rate Swaps
(dollars in thousands)			
For the years ended			
December 31, 2019	\$ 351,375	\$ (1,442,964)	\$ (1,210,276)
December 31, 2018	\$ 100,553	\$ 1,409	\$ 424,081
December 31, 2017	\$ (371,108)	\$ (160,133)	\$ 512,918

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

Year Ended December 31, 2019				
Derivative Instruments	Realized Gain (Loss)	Unrealized Gain (Loss)	Amount of Gain/(Loss) Recognized in Net Gains (Losses) on Other Derivatives	
(dollars in thousands)				
Net TBA derivatives	\$ 464,575	\$ (137,823)	\$	326,752
Net interest rate swaptions	(47,863)	(15,961)		(63,824)
Futures	(1,418,143)	455,417		(962,726)
Purchase commitments	—	333		333
Credit derivatives	8,077	10,618		18,695
Total			\$	(680,770)

Year Ended December 31, 2018				
Derivative Instruments	Realized Gain (Loss)	Unrealized Gain (Loss)	Amount of Gain/(Loss) Recognized in Net Gains (Losses) on Other Derivatives	
(dollars in thousands)				
Net TBA derivatives	\$ (343,594)	\$ 134,397	\$	(209,197)
Net interest rate swaptions	(98,248)	2,679		(95,569)
Futures	564,418	(668,384)		(103,966)
Purchase commitments	—	1,002		1,002
Credit derivatives	9,662	(5,945)		3,717
Total			\$	(404,013)

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 that are in a net liability position at December 31, 2019 was approximately \$672.2 million, which represents the maximum amount the Company would be required to pay upon termination. This amount is fully collateralized.

11. FAIR VALUE MEASUREMENTS

The Company follows fair value guidance in accordance with GAAP to account for its financial instruments and MSRs that are accounted for at fair value. The fair value of a financial instrument and MSR 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 and MSRs 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 and MSRs 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.

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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.

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, TBA derivatives 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.

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

December 31, 2019				
	Level 1	Level 2	Level 3	Total
(dollars in thousands)				
Assets				
Securities				
Agency mortgage-backed securities	\$ —	\$ 112,893,367	\$ —	\$ 112,893,367
Credit risk transfer securities	—	531,322	—	531,322
Non-Agency mortgage-backed securities	—	1,135,868	—	1,135,868
Commercial mortgage-backed securities	—	273,023	—	273,023
Loans				
Residential mortgage loans	—	1,647,787	—	1,647,787
Mortgage servicing rights	—	—	378,078	378,078
Assets transferred or pledged to securitization vehicles	—	6,066,082	—	6,066,082
Derivative assets				
Interest rate swaps	—	1,199	—	1,199
Other derivatives	77,889	34,468	—	112,357
Total assets	\$ 77,889	\$ 122,583,116	\$ 378,078	\$ 123,039,083
Liabilities				
Debt issued by securitization vehicles	—	5,622,801	—	5,622,801
Derivative liabilities				
Interest rate swaps	—	706,862	—	706,862
Other derivatives	84,781	12,223	—	97,004
Total liabilities	\$ 84,781	\$ 6,341,886	\$ —	\$ 6,426,667

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 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

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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.

Valuation Technique	December 31, 2019		December 31, 2018	
	Unobservable Input ⁽¹⁾	Range	Unobservable Input ⁽¹⁾	Range
		(Weighted Average)		(Weighted Average)
Discounted cash flow	Discount rate	9.0% - 12.0% (9.3%)	Discount rate	9.0% - 12.0% (9.4%)
	Prepayment rate	6.3% - 26.6% (13.7%)	Prepayment rate	4.7% - 13.9% (8.0%)
	Delinquency rate	0.0% - 4.0% (2.2%)	Delinquency rate	0.0% - 5.0% (2.3%)
	Cost to service	\$81 - \$135 (\$107)	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 December 31, 2019 and 2018.

	Level in Fair Value Hierarchy	December 31, 2019		December 31, 2018	
		Carrying Value	Fair Value	Carrying Value	Fair Value
(dollars in thousands)					
Financial assets					
Loans					
Commercial real estate debt and preferred equity, held for investment ⁽¹⁾	3	\$ 1,606,091	\$ 1,619,018	\$ 1,296,803	\$ 1,303,487
Commercial loans held for sale, net	3	—	—	42,184	42,184
Corporate debt held for investment	2	2,144,850	2,081,327	1,887,182	1,863,524
Financial liabilities					
Repurchase agreements	1,2	\$ 101,740,728	\$ 101,740,728	\$ 81,115,874	\$ 81,115,874
Other secured financing	1,2	4,455,700	4,455,700	4,183,311	4,183,805
Mortgage payable	3	485,005	515,994	511,056	507,770

⁽¹⁾ Includes assets of consolidated VIEs.

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 December 31, 2019 and 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 year ended December 31, 2019.

Intangible Assets, net	
(dollars in thousands)	
Balance at December 31, 2018	\$ 29,039
Intangible assets divested	(454)
Less: amortization expense	(7,628)
Balance at December 31, 2019	\$ 20,957

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 \$101.7 billion and \$81.1 billion of repurchase agreements with weighted average borrowing rates of 1.99% 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 65 days and 77 days at December 31, 2019 and 2018, respectively. The Company has select arrangements with counterparties to enter into repurchase agreements for \$1.1 billion with remaining capacity of \$796.9 million at December 31, 2019.

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

	December 31, 2019							Total Repurchase Agreements	Weighted Average Rate
	Agency Mortgage-Backed Securities	CRTs	Non-Agency Mortgage-Backed Securities	Commercial Loans	Commercial Mortgage-Backed Securities	U.S. Treasury Securities			
	(dollars in thousands)								
1 day	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	—%	
2 to 29 days	36,030,104	237,897	698,091	—	416,439	—	37,382,531	2.15%	
30 to 59 days	15,079,989	—	115,805	—	104,363	—	15,300,157	2.00%	
60 to 89 days	21,931,335	30,841	151,920	—	3,639	—	22,117,735	1.97%	
90 to 119 days	9,992,914	—	—	—	—	—	9,992,914	1.97%	
Over 119 days ⁽¹⁾	16,557,123	—	58,712	303,078	28,478	—	16,947,391	1.90%	
Total	\$ 99,591,465	\$ 268,738	\$ 1,024,528	\$ 303,078	\$ 552,919	\$ —	\$ 101,740,728	2.03%	

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December 31, 2018									
	Agency Mortgage- Backed Securities	CRTs	Non-Agency Mortgage- Backed Securities	Commercial Loans	Commercial Mortgage- Backed Securities	U.S. Treasury Securities	Total Repurchase Agreements	Weighted Average Rate	
(dollars in thousands)									
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 days	10,067,183	—	—	—	—	—	10,067,183	2.54%	
Over 119 days ⁽¹⁾	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%	

⁽¹⁾ No repurchase agreements had a remaining maturity over 1 year at December 31, 2019. Approximately 1% of the total repurchase agreements had a remaining maturity over 1 year at December 31, 2018.

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 December 31, 2019 and 2018. Refer to the “Derivative Instruments” Note for information related to the effect of netting arrangements on the Company’s derivative instruments.

	December 31, 2019		December 31, 2018	
	Reverse Repurchase Agreements	Repurchase Agreements	Reverse Repurchase Agreements	Repurchase Agreements
(dollars in thousands)				
Gross amounts	\$ 100,000	\$ 101,840,728	\$ 650,040	\$ 81,115,874
Amounts offset	(100,000)	(100,000)	—	—
Netted amounts	\$ —	\$ 101,740,728	\$ 650,040	\$ 81,115,874

The fair value of collateral received in connection with reverse repurchase agreements was \$0 and \$650.0 million, which the Company fully repledged, as of December 31, 2019 and 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 December 31, 2019, \$1.4 billion of advances from the FHLB Des Moines matures in less than one year and \$2.1 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 2.16% and 2.78% at December 31, 2019 and 2018, respectively. The Company held \$147.9 million of capital stock in the FHLB Des Moines at December 31, 2019 and 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 \$112.8 billion and \$357.9 million, respectively, at December 31, 2019 and \$90.2 billion and \$303.1 million, respectively, at December 31, 2018.

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

December 31, 2019						
Property	Mortgage Carrying Value	Mortgage Principal	Interest Rate	Fixed/Floating Rate	Maturity Date	Priority
(dollars in thousands)						
Joint Ventures	\$ 316,566	\$ 318,562	4.03% - 4.96%	Fixed	2024 - 2029	First liens
Joint Ventures	16,029	16,325	L+2.15%	Floating	2/27/2022	First liens
Virginia	82,940	84,702	2.34% - 4.55%	Fixed	2036 - 2053	First liens
Texas	31,667	33,167	3.28%	Fixed	1/1/2048 and 1/1/2053	First liens
Utah	9,706	9,706	L+3.50%	Floating	1/31/2020	First liens
Utah	7,077	7,096	3.69%	Fixed	6/1/2053	First liens
Minnesota	13,243	13,276	3.69%	Fixed	6/1/2053	First liens
Wisconsin	7,777	7,797	3.69%	Fixed	6/1/2053	First liens
Total	<u>\$ 485,005</u>	<u>\$ 490,631</u>				

December 31, 2018						
Property	Mortgage Carrying Value	Mortgage Principal	Interest Rate	Fixed/Floating Rate	Maturity Date	Priority
(dollars in thousands)						
Joint Ventures	\$ 316,275	\$ 318,664	4.03% - 4.96%	Fixed	2024 - 2029	First liens
Joint Ventures	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	9,703	9,706	L+3.50%	Floating	1/31/2019	First liens
Utah	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	<u>\$ 511,056</u>	<u>\$ 516,834</u>				

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

Mortgage Loan Principal Payments	
(dollars in thousands)	
2020	\$ 12,989
2021	3,491
2022	20,034
2023	3,844
2024	3,980
Later years	446,293
Total	<u>\$ 490,631</u>

14. CAPITAL STOCK

(A) Common Stock

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

	Shares authorized		Shares issued and outstanding		Par Value
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018	
Common stock	2,914,850,000	1,924,050,000	1,430,106,199	1,313,763,450	\$0.01

During the year ended December 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.

During the year ended December 31, 2018, the Company closed the public offering of an original issuance of 75.0 million shares of common stock for proceeds of \$762.8 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 \$114.4 million in proceeds before deducting offering expenses.

During the year ended December 31, 2018, the Company issued 43.6 million shares of common stock as part of the consideration for the MTGE Acquisition.

In June 2019, the Company announced that its board of directors ("Board") had authorized the repurchase of up to \$1.5 billion of its outstanding shares of common stock through December 31, 2020. During the year ended December 31, 2019, the Company repurchased 26.2 million shares of its common stock for an aggregate amount of \$223.2 million, excluding commission costs. All common shares purchased were part of a publicly announced plan in open-market transactions.

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

	December 31, 2019	December 31, 2018
	(dollars in thousands)	
Shares issued through direct purchase and dividend reinvestment program	180,000	302,000
Amount raised from direct purchase and dividend reinvestment program	\$ 1,795	\$ 3,144

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 years ended December 31, 2019 and 2018, the Company issued 56.0 million shares of common stock for proceeds of \$569.1 million, net of commissions and fees, and 24.0 million shares for proceeds of \$251.1 million, net of commissions and fees, respectively, under the at-the-market sales program.

(B) Preferred Stock

The following is a summary of the Company's cumulative redeemable preferred stock outstanding at December 31, 2019 and 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.

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	Shares Authorized		Shares Issued And Outstanding		Carrying Value		Contractual Rate	Earliest Redemption Date (1)	Date At Which Dividend Rate Becomes Floating	Floating Annual Rate
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018				
(dollars in thousands)										
Fixed-rate										
Series C	—	7,000,000	—	7,000,000	\$ —	\$ 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	—	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 LIBOR + 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 LIBOR + 4.172%
Series I	18,400,000	—	17,700,000	—	428,324	—	6.75%	6/30/2024	6/30/2024	3M LIBOR + 4.989%
Total	85,150,000	75,950,000	81,900,000	73,400,000	\$ 1,982,026	\$ 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.

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 December 31, 2019, the Company had declared and paid all required quarterly dividends on the Company's preferred stock.

During the year ended December 31, 2019, the Company redeemed all 7.0 million of its issued and outstanding shares of 7.625% Series C Cumulative Redeemable Preferred Stock ("Series C Preferred Stock") for \$175.0 million. The cash redemption amount for each share of Series C Preferred Stock was \$25.00 plus accrued and unpaid dividends to, but not including, the redemption date of July 21, 2019.

During the year ended December 31, 2019, the Company redeemed all 2.2 million of its issued and outstanding shares of 8.125% Series H Cumulative Redeemable Preferred Stock ("Series H Preferred Stock") for \$55.0 million. The cash redemption amount for each share of Series H Preferred Stock was \$25.00 plus accrued and unpaid dividends to, but not including, the redemption date of May 31, 2019.

During the year ended December 31, 2019, the Company issued 17.7 million shares of its 6.750% Series I Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock ("Series I Preferred Stock") for gross proceeds of \$442.5 million before deducting the underwriting discount and other estimated offering expenses.

During the year ended December 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 and 2.2 million shares of its Series H Preferred Stock in connection with the acquisition of MTGE. Refer to the "Acquisition of MTGE Investment Corp." Note for additional information related to the Company's Series H Preferred Stock.

During the year ended December 31, 2018, the Company redeemed 5.0 million shares of its Series C Preferred Stock for \$125.0 million and all 11.5 million of its issued and outstanding shares of 7.625% Series E Cumulative Redeemable Preferred Stock for \$287.5 million.

The Series D Cumulative Redeemable Preferred Stock, Series F Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, Series G Preferred Stock and Series I Preferred Stock rank senior to the common stock of the Company.

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(C) Distributions to Stockholders

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

	For the Years Ended	
	December 31, 2019	December 31, 2018
	(dollars in thousands, except per share data)	
Dividends and dividend equivalents declared on common stock and share-based awards	\$ 1,516,323	\$ 1,457,007
Distributions declared per common share	\$ 1.05	\$ 1.20
Distributions paid to common stockholders after period end	\$ 357,527	\$ 394,129
Distributions paid per common share after period end	\$ 0.25	\$ 0.30
Date of distributions paid to common stockholders after period end	January 31, 2020	January 31, 2019
Dividends declared to series C preferred stockholders	\$ 7,414	\$ 14,323
Dividends declared per share of series C preferred stock	\$ 1.060	\$ 1.906
Dividends declared to series D preferred stockholders	\$ 34,500	\$ 34,500
Dividends declared per share of series D preferred stock	\$ 1.875	\$ 1.875
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	\$ 50,040	\$ 50,040
Dividends declared per share of series F preferred stock	\$ 1.738	\$ 1.738
Dividends declared to series G preferred stockholders	\$ 27,624	\$ 26,781
Dividends declared per share of series G preferred stock	\$ 1.625	\$ 1.575
Dividends declared to series H preferred stockholders	\$ 1,862	\$ 1,415
Dividends declared per share of series H preferred stock	\$ 0.846	\$ 0.643
Dividends declared to series I preferred stockholders	\$ 15,135	\$ —
Dividends declared per share of series I preferred stock	\$ 0.858	\$ —

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:

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

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

⁽²⁾ 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).

⁽³⁾ 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.

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The following presents the components of the Company's interest income and interest expense for the years ended December 31, 2019, 2018 and 2017.

	For the Years Ended December 31,		
	2019	2018	2017
Interest income	(dollars in thousands)		
Residential Securities ⁽¹⁾	\$ 3,195,546	\$ 2,830,521	\$ 2,170,041
Residential mortgage loans ⁽¹⁾	150,066	83,260	30,540
Commercial investment portfolio ⁽¹⁾⁽²⁾	378,395	356,981	273,884
U.S. Treasury securities	—	160	—
Reverse repurchase agreements	63,290	61,641	18,661
Total interest income	\$ 3,787,297	\$ 3,332,563	\$ 2,493,126
Interest expense			
Repurchase agreements	2,513,282	1,698,930	891,819
Debt issued by securitization vehicles	141,981	98,013	60,304
Participation sold	—	—	195
Other	129,612	100,917	56,036
Total interest expense	2,784,875	1,897,860	1,008,354
Net interest income	\$ 1,002,422	\$ 1,434,703	\$ 1,484,772

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

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

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 years ended December 31, 2019, 2018 and 2017.

	For the Years Ended		
	December 31, 2019	December 31, 2018	December 31, 2017
	(dollars in thousands, except per share data)		
Net income (loss)	\$ (2,163,091)	\$ 54,148	\$ 1,569,016
Net income (loss) attributable to noncontrolling interests	(226)	(260)	(588)
Net income (loss) attributable to Annaly	(2,162,865)	54,408	1,569,604
Dividends on preferred stock	136,576	129,312	109,635
Net income (loss) available (related) to common stockholders	\$ (2,299,441)	\$ (74,904)	\$ 1,459,969
Weighted average shares of common stock outstanding-basic	1,434,912,682	1,209,601,809	1,065,923,652
Add: Effect of stock awards, if dilutive	—	—	427,964
Weighted average shares of common stock outstanding-diluted	1,434,912,682	1,209,601,809	1,066,351,616
Net income (loss) per share available (related) to common share			
Basic	\$ (1.60)	\$ (0.06)	\$ 1.37
Diluted	\$ (1.60)	\$ (0.06)	\$ 1.37

No options to purchase shares of common stock were outstanding for the year ended December 31, 2019. 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 years ended December 31, 2018 and 2017, respectively.

17. INCOME TAXES

For the year ended December 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.

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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 December 31, 2019 and 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 years ended December 31, 2019, 2018 and 2017 the Company recorded (\$10.8) million, (\$2.4) million and \$7.0 million, respectively, of income tax expense (benefit) attributable to its TRSs. The Company’s federal, state and local tax returns from 2016 and forward remain open for examination.

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

Until the closing of the Internalization (as defined in Note 24), management of the Company will continue to be conducted by the Manager through the authority delegated to it in the Management Agreement and pursuant to the policies established by the Board. The management agreement was amended and restated on August 1, 2018, and further amended on March 27, 2019 (the management agreement, as amended and restated, is referred to as "Management Agreement"). On February 12, 2020, the Company entered an internalization agreement (the "Internalization Agreement") with the Manager pursuant to which, upon closing, the Management Agreement will be terminated. If the closing does not occur, the Management Agreement will remain in place on the terms and conditions described herein.

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. 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.

For the years ended December 31, 2019, 2018 and 2017, the compensation and management fee was \$170.6 million (includes \$5.9 million related to compensation expense for the employees of the Company's subsidiaries), \$179.8 million (includes \$5.2 million related to compensation expense for the employees of the Company's subsidiaries), and \$164.3 million (includes \$7.2 million related to compensation expense for the employees of the Company's subsidiaries), 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. As part of an expense management initiative undertaken by the Manager, expense reimbursement payments were voluntarily waived for the three months ended September 30, 2019. Expense reimbursements and related waivers are routinely reviewed with the Audit Committee of the Board in conformance with established policies. For the years ended December 31, 2019, and 2018 reimbursement payments to the Manager were \$21.4 million and \$9.2 million, respectively. There were no reimbursement payments to the Manager during the years ended 2017. None of the reimbursement payments are attributable to compensation of the Company's executive officers.

At December 31, 2019 and 2018, the Company had amounts payable to the Manager of \$15.8 million and \$16.0 million, respectively.

The Management Agreement's current term ends on December 31, 2021 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. The lease cost for the year ended December 31, 2019 was \$3.2 million.

Supplemental information related to leases as of and for the year ended December 31, 2019 was as follows:

Operating Leases	Classification	December 31, 2019	
(dollars in thousands)			
Assets			
Operating lease right-of-use assets	Other assets	\$	15,786
Liabilities			
Operating lease liabilities ⁽¹⁾	Other liabilities	\$	20,439
Lease term and discount rate			
Weighted average remaining lease term			5.7 years
Weighted average discount rate ⁽¹⁾			2.9%
Cash paid for amounts included in the measurement of lease liabilities			
Operating cash flows from operating leases		\$	3,712

⁽¹⁾ 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 ended December 31,	Maturity of Lease Liabilities	
	(dollars in thousands)	
2020	\$	3,799
2021		3,918
2022		3,862
2023		3,862
2024		3,862
Later years		2,895
Total lease payments	\$	22,198
Less imputed interest		1,759
Present value of lease liabilities	\$	20,439

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 December 31, 2019 and 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 December 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 December 31, 2019 was \$406.8 million with excess net capital of \$406.5 million.

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, 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 2018	
	(dollars in 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
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

23. SUMMARIZED QUARTERLY RESULTS (UNAUDITED)

The following is a presentation of summarized quarterly results of operations for the years ended December 31, 2019 and 2018. These quarterly results were prepared in accordance with GAAP and reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results. These adjustments are of a normal, recurring nature.

	For the Quarters Ended			
	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
	(dollars in thousands, except per share data)			
Interest income	\$ 1,074,214	\$ 919,299	\$ 927,598	\$ 866,186
Interest expense	620,058	766,905	750,217	647,695
Net interest income	454,156	152,394	177,381	218,491
Total realized and unrealized gains (losses)	785,687	(875,406)	(1,909,482)	(1,011,926)
Total other income (loss)	42,656	35,074	28,181	30,502
Less: Total general and administrative expenses	73,351	66,138	78,408	83,737
Income (loss) before income taxes	1,209,148	(754,076)	(1,782,328)	(846,670)
Less: Income taxes	(594)	(6,907)	(5,915)	2,581
Net income (loss)	1,209,742	(747,169)	(1,776,413)	(849,251)
Less: Net income attributable to noncontrolling interests	68	(110)	(83)	(101)
Less: Dividends on preferred stock ⁽¹⁾	35,509	36,151	32,422	32,494
Net income (loss) available (related) to common stockholders	\$ 1,174,165	\$ (783,210)	\$ (1,808,752)	\$ (881,644)
Net income (loss) available (related) per share to common stockholders				
Basic	\$ 0.82	\$ (0.54)	\$ (1.24)	\$ (0.63)
Diluted	\$ 0.82	\$ (0.54)	\$ (1.24)	\$ (0.63)

	For the Quarters Ended			
	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
	(dollars in thousands, except per share data)			
Interest income	\$ 859,674	\$ 816,596	\$ 776,806	\$ 879,487
Interest expense	586,774	500,973	442,692	367,421
Net interest income	272,900	315,623	334,114	512,066
Total realized and unrealized gains (losses)	(2,502,035)	199,716	294,646	844,689
Total other income (loss)	52,377	(10,643)	34,170	34,023
Less: Total general and administrative expenses	77,073	126,509	63,781	62,510
Income (loss) before income taxes	(2,253,831)	378,187	599,149	1,328,268
Less: Income taxes	1,041	(7,242)	3,262	564
Net income (loss)	(2,254,872)	385,429	595,887	1,327,704
Less: Net income attributable to noncontrolling interests	17	(149)	(32)	(96)
Less: Dividends on preferred stock	32,494	31,675	31,377	33,766
Net income (loss) available (related) to common stockholders	\$ (2,287,383)	\$ 353,903	\$ 564,542	\$ 1,294,034
Net income (loss) available (related) per share to common stockholders				
Basic	\$ (1.74)	\$ 0.29	\$ 0.49	\$ 1.12
Diluted	\$ (1.74)	\$ 0.29	\$ 0.49	\$ 1.12

⁽¹⁾ The quarter ended September 30, 2019 excludes, and the quarter ended June 30, 2019 includes, cumulative and undeclared dividends of \$0.3 million on the Company's Series I Preferred Stock as of June 30, 2019.

24. SUBSEQUENT EVENTS

In January 2020, the Company completed and closed its securitization of residential mortgage loans, OBX 2020-INV1 Trust, with a face value of \$374.6 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 February 12, 2020, the Company entered into an Internalization Agreement with the Manager and certain affiliates of the Manager. Pursuant to the Internalization Agreement, the Company agreed to acquire all of the outstanding equity interests of the Manager and the Manager’s direct and indirect parent companies from their respective owners (the “Internalization”) for nominal

cash consideration (\$1.00). As a result of the Internalization, the Manager will cease to perform any outside management services for the Company and the Company will become an internally-managed REIT.

While Glenn A. Votek, the Company's interim Chief Executive Officer and President, intends to transition to a temporary advisory role with the Company and to continue serving as an active member of the Board following the appointment of a permanent chief executive officer and president, the Company's other executive officers have entered into employment agreements that will become effective upon the closing of the Internalization. In addition, the Management Agreement will be terminated at the closing of the Internalization, and the Manager has agreed to waive any Acceleration Fee (as defined in the Management Agreement) solely as related to the closing of the Internalization. If the closing does not occur, the Management Agreement will revert to the form it was in immediately prior to the execution of the Internalization Agreement in all respects, including with respect to the Acceleration Fee. The Company anticipates that the closing will occur in the second quarter of 2020.

Schedule III - Real Estate and Accumulated Depreciation
(dollars in thousands)

December 31, 2019													
Location	Number of Properties	Encumbrances	Initial Cost to Company			Cost Capitalized Subsequent to Acquisition	Gross Amounts Carried at Close of Period 12/31/19			Accumulated Depreciation	Year of Construction	Date Acquired	Weighted-Average Depreciable Life (in years)
			Land	Buildings and Improvements	Improvements	Improvements	Land	Buildings and Improvements	Total (1)				
Retail - Carrollton, TX	1	\$ 12,875	\$ 3,961	\$ 14,672	\$ 9	\$ 3,970	\$ 14,672	\$ 18,642	\$ (3,007)	1996	11/25/2015	38	
Retail - Plano, TX	1	11,817	4,616	12,691	207	4,616	12,898	17,514	(2,967)	1994	11/25/2015	38	
Retail - Grapevine, TX	1	12,692	4,713	13,888	—	4,713	13,888	18,601	(2,644)	1998	11/25/2015	38	
Retail - Flower Mound, TX	1	13,085	4,963	14,477	51	4,963	14,528	19,491	(2,928)	1999	11/25/2015	38	
Retail - Grapevine, TX	1	9,797	3,932	9,972	17	3,932	9,989	13,921	(2,151)	1994	11/25/2015	38	
Retail - Flower Mound, TX	1	7,492	2,696	7,351	187	2,696	7,538	10,234	(2,205)	1992	11/25/2015	38	
Retail - Flower Mound, TX	1	8,929	3,571	8,280	219	3,571	8,499	12,070	(1,552)	1996	11/25/2015	38	
Retail - Plano, TX	1	4,638	1,459	4,533	32	1,459	4,565	6,024	(1,943)	1995	11/25/2015	38	
Retail - Largo, FL	1	12,750	4,973	12,812	309	4,973	13,121	18,094	(2,746)	1988	8/14/2015	27	
Retail - Grass Valley, CA	1	25,900	9,872	28,680	483	9,872	29,163	39,035	(7,039)	1988	10/27/2015	25	
Multifamily - Washington, DC	1	57,500	31,999	42,623	757	31,999	43,380	75,379	(6,871)	1978, 2008	10/20/2015	28	
Retail - Penfield, NY	1	23,558	4,121	22,413	1,480	4,122	23,892	28,014	(7,077)	1957	11/10/2014	24	
Retail - Orchard Park, NY	1	12,888	4,204	20,617	139	4,189	20,771	24,960	(4,813)	1997, 2000	11/10/2014	32	
Retail - Cheektowaga, NY	1	9,447	1,961	12,259	238	1,939	12,519	14,458	(2,879)	1978	11/10/2014	25	
Retail - Amherst, NY	1	8,270	2,131	9,740	342	2,132	10,081	12,213	(2,539)	1986	11/10/2014	28	
Retail - Ontario, NY	1	5,406	575	6,813	27	574	6,841	7,415	(1,980)	1998	11/10/2014	31	
Retail - Irondequoit, NY	1	15,000	2,438	14,684	607	2,438	15,291	17,729	(4,256)	1972	11/10/2014	27	
Retail - LeRoy, NY	1	3,492	374	4,922	405	343	5,358	5,701	(1,571)	1997	11/10/2014	29	
Retail - Jamestown, NY	1	7,356	820	4,915	—	820	4,915	5,735	(1,689)	1997	11/10/2014	29	
Retail - Warsaw, NY	1	3,415	407	4,117	7	407	4,124	4,531	(1,122)	1998	11/10/2014	31	
Retail - Chillicothe, OH	1	7,888	1,262	10,819	57	1,262	10,876	12,138	(2,534)	1981, 1998	11/10/2014	26	
Retail - Loganville, GA	1	7,230	3,217	8,386	511	3,217	8,897	12,114	(2,152)	1996	11/10/2014	28	
Retail - Chillicothe, OH	1	7,700	2,282	9,566	209	2,282	9,775	12,057	(2,084)	1995	7/22/2015	25	
Retail - Knoxville, TN	1	—	3,503	13,309	399	3,503	13,708	17,211	(2,538)	2002	4/9/2014	34	
Healthcare - Abingdon, VA	1	13,151	370	15,061	—	370	15,061	15,431	(647)	2012	9/7/2018	44	
Healthcare - Abingdon, VA	1	7,511	160	11,894	—	160	11,894	12,054	(627)	2004	9/7/2018	36	
Healthcare - Fredericksburg, VA	1	14,657	3,110	18,830	—	3,110	18,830	21,940	(970)	1986	9/7/2018	18	
Healthcare - Gainesville, VA	1	13,080	1,470	13,894	—	1,470	13,894	15,364	(676)	2006	9/7/2018	38	
Healthcare - Pennington Gap, VA	1	5,731	190	11,549	—	190	11,549	11,739	(637)	2001	9/7/2018	33	
Healthcare - Manassas, VA	1	13,154	2,040	14,041	—	2,040	14,041	16,081	(681)	2006	9/7/2018	38	
Healthcare - Radford, VA	1	6,690	370	12,623	—	370	12,623	12,993	(634)	2002	9/7/2018	34	
Healthcare - Hopewell, VA	1	8,536	560	12,181	—	560	12,181	12,741	(632)	2005	9/7/2018	37	
Healthcare - Clifton Forge, VA	1	2,192	710	5,368	—	710	5,368	6,078	(481)	1986	9/7/2018	18	
Healthcare - Allen, TX	1	9,000	800	10,858	—	800	10,858	11,658	(830)	2000	9/7/2018	22	
Healthcare - Frisco, TX	1	6,672	1,000	7,420	—	1,000	7,420	8,420	(473)	1999	9/7/2018	31	
Healthcare - Garland, TX	1	9,155	740	10,705	—	740	10,705	11,445	(572)	2004	9/7/2018	36	
Healthcare - Denison, TX	1	4,306	650	6,527	—	650	6,527	7,177	(616)	1992	9/7/2018	19	
Healthcare - Lewisville, TX	1	4,034	870	7,020	—	870	7,020	7,890	(507)	2004	9/7/2018	26	
Healthcare - Kaukauna, WI	1	7,797	240	8,904	—	240	8,904	9,144	(455)	2009, 2013	9/7/2018	34	
Healthcare - Mankato, MN	1	7,487	660	9,040	—	660	9,040	9,700	(633)	2004	9/7/2018	21	
Healthcare - Mankato, MN	1	5,789	410	6,618	—	410	6,618	7,028	(330)	2014	9/7/2018	31	
Healthcare - St. George, UT	1	9,706	1,050	13,422	—	1,050	13,422	14,472	(588)	2014	9/7/2018	36	

Healthcare - St. George, UT	1	7,096	690	7,670	—	690	7,670	8,360	(380)	2011	9/7/2018	33
Healthcare - Covington, LA	1	16,548	410	19,216	261	410	19,477	19,887	(986)	2009	9/7/2018	31
Healthcare - Blue Ridge, GA	1	12,889	630	15,576	3,117	630	18,693	19,323	(784)	2016	9/7/2018	38
Healthcare - Mission, KS	1	16,325	600	21,501	47	598	21,550	22,148	(1,106)	2015	9/7/2018	32
	<u>46</u>	<u>\$ 490,631</u>	<u>\$ 121,780</u>	<u>\$ 572,457</u>	<u>\$ 10,117</u>	<u>\$ 121,720</u>	<u>\$ 582,634</u>	<u>\$ 704,354</u>	<u>\$ (87,532)</u>			

⁽¹⁾ The aggregate cost of land, buildings and improvements, before depreciation, for Federal income tax purposes at December 31, 2019 was \$735.1 million (unaudited).

The following table presents our real estate activity during the periods presented:

	2019	2018	2017
Real Estate	(dollars in thousands)		
Beginning balance	\$ 721,664	\$ 441,971	\$ 448,620
Acquisitions and improvements	5,811	279,693	1,231
Property sold	(23,121)	—	(7,880)
Ending balance	\$ 704,354	\$ 721,664	\$ 441,971
Accumulated Depreciation			
Beginning balance	\$ 67,026	\$ 48,920	\$ 34,221
Property sold	(3,166)	—	(1,052)
Depreciation	23,672	18,106	15,751
Ending balance	\$ 87,532	\$ 67,026	\$ 48,920

December 31, 2019									
Schedule IV - Mortgage Loans on Commercial Real Estate									
Description	Location	Prior Liens ⁽¹⁾	Face Amount	Carrying Amount	Interest Rate ⁽²⁾	LIBOR Floor	Payment Terms	Maturity Date ⁽³⁾	
Mezzanine debt investments									
(dollars in thousands)									
Retail	MA	\$ 62,053	\$ 10,000	\$ 10,000	10.14%	N/A	Interest Only	9/6/2023	
Office	LA	60,989	8,700	8,700	10.75%	N/A	Interest Only	10/1/2023	
Mixed Use	OH	126,577	36,603	30,900	9.50%	N/A	Interest Only	12/1/2023	
Office	TX	50,420	7,000	—	10.10%	N/A	Interest Only	12/1/2024	
Office	CA	104,682	23,013	23,013	LIBOR+5.79%	N/A	Interest Only	1/2/2021	
Office	CA	104,682	10,281	10,281	LIBOR+6.54%	N/A	Interest Only	1/2/2021	
Hotel	LA	95,588	14,706	14,706	LIBOR+9.50%	N/A	Interest Only	9/9/2020	
Retail	CO	—	470	470	LIBOR+5.00%	0.50%	Interest Only	10/8/2020	
Office	FL	—	18,363	18,301	LIBOR+3.30%	0.50%	Interest Only	5/9/2021	
Retail	DC	—	17,100	17,100	LIBOR+7.73%	0.50%	Interest Only	1/9/2020	
Office	TX	—	19,136	18,992	LIBOR+3.75%	1.25%	Interest Only	8/9/2022	
Office	TX	—	15,000	14,892	LIBOR+3.45%	2.25%	Interest Only	3/5/2022	
Retail	NC	—	2,692	2,668	LIBOR+3.40%	2.25%	Interest Only	3/9/2022	
First mortgages									
Office	NJ	\$ —	\$ 64,390	\$ 64,390	LIBOR+4.50%	0.25%	Interest Only	2/7/2020	
Office	VA	—	33,498	33,284	LIBOR+4.00%	1.25%	Interest Only	4/9/2021	
Office	VA	—	43,100	42,873	LIBOR+2.80%	1.90%	Interest Only	8/9/2021	
Industrial	TN	—	21,250	21,132	LIBOR+3.00%	2.00%	Interest Only	9/1/2021	
Office	CO	—	1,868	1,901	LIBOR+3.60%	1.00%	Interest Only	8/9/2020	
Retail	TN	—	85	89	LIBOR+4.50%	1.20%	Interest Only	11/6/2020	
Office	CA	—	417	422	LIBOR+3.25%	1.00%	Interest Only	5/9/2022	
Office	TX	—	65,081	64,673	LIBOR+3.75%	1.25%	Interest Only	8/9/2022	
Hotel	TX	—	1,288	1,305	LIBOR+3.75%	2.00%	Interest Only	10/9/2020	
Office	CA	—	2,320	2,320	LIBOR+3.50%	2.00%	Interest Only	11/9/2020	
Multifamily	TX	—	70	70	LIBOR+2.90%	2.25%	Interest Only	2/1/2022	
Retail	TX	—	12,000	11,913	LIBOR+3.45%	2.25%	Interest Only	3/5/2022	
Retail	NC	—	9,390	9,319	LIBOR+3.40%	2.25%	Interest Only	3/9/2022	
Multifamily	CA	—	350	350	LIBOR+3.00%	2.40%	Interest Only	5/5/2022	
Office	MD	—	16,100	15,805	LIBOR+4.60%	2.30%	Interest Only	9/1/2022	
Retail	CA	—	65,366	64,775	LIBOR+3.40%	2.06%	Interest Only	3/5/2022	
Healthcare	WA	—	19,044	18,874	LIBOR+3.40%	1.75%	Interest Only	10/1/2021	
Retail	DE	—	31,469	31,180	LIBOR+2.90%	1.75%	Interest Only	11/8/2021	
Industrial	AZ	—	14,300	14,041	LIBOR+3.50%	1.60%	Interest Only	12/9/2022	
Industrial	NC	—	47,813	47,268	LIBOR+2.85%	1.85%	Interest Only	12/9/2022	
Multifamily	NY	—	54,300	53,706	LIBOR+3.25%	1.75%	Interest Only	1/9/2023	
			\$ 686,563	\$ 669,713					

⁽¹⁾ Represents third-party priority liens.

⁽²⁾ LIBOR represents the one month London Interbank Offer Rate.

⁽³⁾ Assumes all extension options are exercised.

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.

Date: February 13, 2020

By: /s/ Glenn A. Votek

Glenn A. Votek

Interim Chief Executive Officer and President (Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature	Title	Date
<u>/s/ Glenn A. Votek</u> Glenn A. Votek	Interim Chief Executive Officer, President and Director (Principal Executive Officer)	February 13, 2020
<u>/s/ Serena Wolfe</u> Serena Wolfe	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	February 13, 2020
<u>/s/ Francine J. Bovich</u> Francine J. Bovich	Director	February 13, 2020
<u>/s/ Wellington J. Denahan</u> Wellington J. Denahan	Director, Vice Chair of the Board	February 13, 2020
<u>/s/ Katherine Beirne Fallon</u> Katherine Beirne Fallon	Director	February 13, 2020
<u>/s/ Jonathan D. Green</u> Jonathan D. Green	Director, Vice Chair of the Board	February 13, 2020
<u>/s/ Thomas Edward Hamilton</u> Thomas Edward Hamilton	Director, Chair of the Board	February 13, 2020
<u>/s/ Kathy Hopinkah Hannan</u> Kathy Hopinkah Hannan	Director	February 13, 2020
<u>/s/ Michael E. Haylon</u> Michael E. Haylon	Director	February 13, 2020
<u>/s/ John H. Schaefer</u> John H. Schaefer	Director	February 13, 2020
<u>/s/ Donnell A. Segalas</u> Donnell A. Segalas	Director	February 13, 2020
<u>/s/ Vicki Williams</u> Vicki Williams	Director	February 13, 2020

**DESCRIPTION OF THE REGISTRANT’S SECURITIES
REGISTERED PURSUANT TO SECTION 12 OF THE
SECURITIES EXCHANGE ACT OF 1934**

As of December 31, 2019, Annaly Capital Management, Inc. (“Annaly” or the “Company”) had five classes of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”):

- common stock, \$0.01 par value per share;
- 7.50% Series D Cumulative Redeemable Preferred Stock, \$0.01 par value per share (“Series D Preferred Stock”);
- 6.95% Series F Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, \$0.01 par value per share (“Series F Preferred Stock”);
- 6.50% Series G Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, \$0.01 par value per share (“Series G Preferred Stock”); and
- 6.750% Series I Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, \$0.01 par value per share (“Series I Preferred Stock”).

Each of the Company’s securities registered under Section 12 of the Exchange Act are listed on The New York Stock Exchange.

Description of Equity Securities

The following description of the terms of our equity securities is only a summary. This summary is not complete and is qualified by the provisions of our charter and bylaws, which have been filed with the U.S. Securities and Exchange Commission (the “SEC”) and incorporated by reference herein, and the Maryland General Corporation Law (the “MGCL”).

Authorized Stock

Our charter provides that the total number of shares of stock of all classes which we have the authority to issue is 3,000,000,000 shares of capital stock, consisting of 2,914,850,000 shares of our common stock, 18,400,000 shares of Series D Preferred Stock, 28,800,000 shares of Series F Preferred Stock, 19,550,000 shares of Series G Preferred Stock, and 18,400,000 shares of Series I Preferred Stock. The aggregate par value of all shares of stock having par value is \$30,000,000.

Our Board of Directors (the “Board”) may classify and reclassify any unissued shares of capital stock by setting or changing in any one or more respects the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications or terms or conditions of redemption of such shares of stock.

Classification or Reclassification of Common Stock or Preferred Stock

Our charter authorizes our Board to reclassify any unissued shares of stock into other classes or series of shares, to establish the number of shares in each class or series and to set the preferences, conversion and other rights, voting powers, restrictions, limitations, and restrictions on ownership, limitations as to dividends or other distributions, qualifications, and terms or conditions of redemption for each class or series.

Restrictions on Ownership and Transfer

To assist us in qualifying as a real estate investment trust (a “REIT”), among other purposes, our charter prohibits anyone from acquiring or holding, directly or constructively, ownership of 9.8% or more, in number of shares or value, of any class of our outstanding capital stock. We refer to this restriction as the “9.8% ownership limit.” For this purpose, the term “ownership” generally means either direct ownership or constructive ownership in accordance with the constructive ownership provisions of Section 544 of the Internal Revenue Code of 1986, as amended (the “Code”), as modified in Section 856(h) of the Code.

The constructive ownership provisions of Section 544 of the Code generally (a) attribute ownership of securities owned by a corporation, partnership, estate or trust proportionately to its stockholders, partners or beneficiaries; (b) attribute ownership of securities owned by family members to other members of the same family; and (c) set forth rules for attributing securities constructively owned by one person to another person. To determine whether a person holds or would hold capital stock in excess of the 9.8% ownership limit, a person will be treated as owning not only shares of capital stock actually owned, but also any shares of capital stock attributed to that person under the attribution rules described above. Accordingly, a person who individually owns less than 9.8% of the shares outstanding may nevertheless be in violation of the 9.8% ownership limit.

Any transfer of shares of capital stock that would cause us to be disqualified as a REIT or that would (a) create a direct or constructive ownership of shares of capital stock in excess of the 9.8% ownership limit, (b) result in the shares of capital stock being beneficially owned (within the meaning of Section 856(a) of the Code) by fewer than 100 persons (determined without reference to any rules of attribution), or (c) result in us being “closely held” within the meaning of Section 856(h) of the Code, will be null and void, and the intended transferee (the “purported transferee”) will acquire no rights to those shares. These restrictions on transferability and ownership will not apply if our Board determines that it is no longer in our best interests to attempt to, or to continue to, qualify as a REIT.

Any purported transfer of shares of capital stock that would result in a purported transferee owning (directly or constructively) shares of capital stock in excess of the 9.8% ownership limit due to the unenforceability of the transfer restrictions described above will constitute “excess securities.” Excess securities will be transferred by operation of law to a trust that we will establish for the exclusive benefit of a charitable organization or charitable organizations (the “charitable beneficiary”), until such time as the trustee of the trust retransfers the excess securities. The trustee will be a banking institution designated by us that is not affiliated with the purported transferee or us. While the excess securities are held in trust, the purported transferee will not be entitled to vote or to share in any dividends or other distributions with respect to the securities. Subject to the 9.8% ownership limit, excess securities may be transferred by the trust to any person (if such transfer would not result in excess securities). Upon such a transfer, the purported transferee shall receive a price for such excess securities equal to the lesser of (i) the price per share such purported transferee paid in the transfer that resulted in the excess securities (or, if the purported transferee did not give value for such excess securities (such as through a gift, devise or other transaction), a price per share equal to the Market Price (as defined in our charter) for the excess securities on the date of the purported transfer that resulted in the excess securities), or (ii) the price per share for the excess securities received by the trust from the sale or other disposition of the excess securities to the new owner, at which point the excess securities will automatically cease to be excess securities.

Upon a purported transfer of excess securities, the purported transferee will cease to be entitled to distributions, voting rights and other benefits with respect to the shares of capital stock except the right to payment of the purchase price for the shares of capital stock on the retransfer of securities as provided above. Any dividend or distribution paid to a purported transferee on excess securities prior to our discovery that shares of capital stock have been transferred in violation of our charter, shall be paid to the trust for the exclusive benefit of the charitable beneficiary. If any of the transfer restrictions in our charter are determined to be void, invalid or unenforceable by a court of competent jurisdiction, then the purported transferee of any excess securities may be deemed, at our option, to have acted as an agent on our behalf in acquiring the

excess securities and to hold the excess securities on our behalf. All certificates representing shares of capital stock will bear a legend referring to the restrictions described above.

Any person who acquires shares in violation of our charter, or any person who is a purported transferee such that excess securities results, must immediately give written notice or, in the event of a proposed or attempted transfer that would be void as set forth above, give at least 15 days' prior written notice to us of such event and shall provide us such other information as we may request in order to determine the effect, if any, of the transfer on our qualification as a REIT. In addition, every record owner of more than 5.0% of the number or value of our outstanding shares of capital stock must send us an annual written notice by January 30 stating the name and address of the record owner, the number of shares beneficially owned and describing how the shares are held. Further, each beneficial owner and each person (including the stockholder of record) who is holding stock for a beneficial owner is required to disclose to us in information with respect to the direct and constructive ownership of shares as we may reasonably request in order to comply with the REIT provisions of the Code, to comply with the requirements of any taxing authority or governmental agency or to determine any such compliance.

Notwithstanding the above, our Board may increase or decrease the 9.8% ownership limit unless, after giving effect to any increased ownership limit, five or fewer persons could beneficially own, in the aggregate, more than 50% in value of the shares of our capital stock then outstanding. In addition, to the extent consistent with the REIT provisions of the Code, our Board may, upon receipt of a ruling from the IRS or an opinion of our tax advisor or other documents or evidence satisfactory to our Board and upon such other conditions as our Board may direct, waive the 9.8% ownership limit for a purchaser of our stock.

The provisions described above may inhibit market activity and may delay, defer or prevent a change in control or other transaction and the resulting opportunity for the holders of our capital stock to receive a premium for their shares that might otherwise exist in the absence of such provisions. Such provisions also may make us an unsuitable investment vehicle for any person seeking to obtain ownership of more than 9.8%, in number of shares or value, of the outstanding shares of any class or series of our capital stock.

Certain Provisions of Maryland Law and of Our Charter and Bylaws

We have summarized certain terms and provisions of our charter and bylaws and the MGCL. This summary is not complete and is qualified by the provisions of our charter and bylaws, which are filed with the SEC and incorporated by reference herein, and the MGCL.

Number of Directors; Vacancies and Removal of Directors

Our bylaws provide for the gradual declassification of the Board commencing with the annual meeting of the stockholders of the Company held in 2019, which will result in the Board being fully declassified (and all Board members standing for annual election) commencing with the annual meeting of the stockholders of the Company held in 2021. Directors elected prior to the annual meeting of stockholders of the Company in 2019 were divided into three classes (Class I, Class II and Class III) and served, or will serve, out the terms in the classes for which they have been elected as set forth below:

Class I	3 Directors	Expires 2021
Class II	4 Directors	Expires 2019
Class III	4 Directors	Expires 2020

Our charter and bylaws provide that the number of directors we have may be established only by our Board of directors and may not be fewer than the minimum number required by the MGCL. Pursuant to our bylaws, the number of directors may not be more than 15. Under our bylaws, at the annual meeting of stockholders of the Company held in 2019, the successors to the directors whose terms expired at that

meeting were elected to serve until the next annual meeting of stockholders and until their successors are duly elected and qualify; at the annual meeting of stockholders of the Company held in 2020, the successors to the directors whose terms expire at that meeting will be elected to serve until the next annual meeting of stockholders and until their successors are duly elected and qualify; and beginning with the annual meeting of stockholders in 2021, all directors will be elected to serve until the next annual meeting of stockholders and until their successors are duly elected and qualify. Our bylaws also provide that, except in the case of a vacancy, a majority of our Board must (i) meet the independence requirements under the rules and regulations of the New York Stock Exchange as in effect from time to time and (ii) not be an officer, member or employee of either us or Annaly Management Company LLC.

Our bylaws provide that any vacancy on our Board for any cause other than an increase in the number of directors may be filled by a majority of the remaining directors; provided, however, that, pursuant to Maryland law, stockholders will have the concurrent power to elect a director to fill a vacancy resulting from the removal of a director by a vote of the stockholders. Any vacancy on our Board created by an increase in the number of directors may be filled by a majority of the entire Board. Pursuant to the MGCL, a director may be removed at any time, with or without cause, upon the affirmative vote of a majority of the votes entitled to be cast in the election of directors; provided however, directors serving in Class III and Class I may not be removed without cause until the respective annual meeting of stockholders of the Company in 2020 and 2021.

Limitation of Liability and Indemnification of Directors and Officers

The MGCL permits the charter of a Maryland corporation to include a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages, except to the extent that (1) it is proved that the person actually received an improper benefit or profit in money, property or services; or (2) a judgment or other final adjudication adverse to the person is entered in a proceeding based on a finding that the person's action, or failure to act, was the result of active and deliberate dishonesty and was material to the cause of action adjudicated in the proceeding. Our charter provides for elimination of the liability of our directors and officers to us or our stockholders for money damages to the maximum extent permitted by Maryland law from time to time.

The MGCL requires us (unless our charter were to provide otherwise, which it does not) to indemnify a director or officer who has been successful, on the merits or otherwise, in the defense of any proceeding to which he or she is made a party by reason of his or her service in that capacity. The MGCL permits us to indemnify our present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to or in which they may be made or threatened to be made a party or witness by reason of their service in those or certain other capacities unless it is established that:

- the act or omission of the director or officer was material to the matter giving rise to the proceeding and (a) was committed in bad faith or (b) was the result of active and deliberate dishonesty;
- the director or officer actually received an improper personal benefit in money, property or services; or
- in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful.

The MGCL prohibits us from indemnifying a director or officer who has been adjudged liable in a suit by us or on our behalf or in which the director or officer was adjudged liable on the basis that a personal benefit was improperly received. A court may order indemnification if it determines that the director or officer is fairly and reasonably entitled to indemnification, even though the director or officer did not meet the prescribed standard of conduct or was adjudged liable on the basis that a personal benefit was improperly received; however, indemnification for an adverse judgment in a suit by us or on our behalf, or for a judgment of liability on the basis that a personal benefit was improperly received, is limited to expenses.

In addition, the MGCL permits us to advance reasonable expenses to a director or officer upon our receipt of (a) a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification and (b) a written undertaking by him or her or on his or her behalf to repay the amount paid or reimbursed if it is ultimately determined that the standard of conduct was not met.

To the maximum extent permitted by Maryland law, our charter and bylaws obligate us to indemnify any individual who is made or threatened to be made a party to or witness in a proceeding by reason of his or her service:

- as a director or officer of us; or
- while a director or officer and at our request, as a director, officer, trustee, member, manager or partner of another corporation, real estate investment trust, limited liability company, partnership, joint venture, trust, employee benefit plan or other enterprise,

in each case, from and against any claim or liability to which he or she may become subject or that he or she may incur by reason of his or her service in any of these capacities, and to pay or reimburse his or her reasonable expenses in advance of final disposition of a proceeding. Our charter and bylaws also permit us, with the approval of our Board, to indemnify and advance expenses to any individual who served any of our predecessors in any of the capacities described above and any employee or agent of ours or any of our predecessors.

Exclusive Forum

Our bylaws provide that unless we consent in writing to the selection of an alternative forum, the Circuit Court for Baltimore City, Maryland, or if that court does not have jurisdiction, the United States District Court for the District of Maryland, Baltimore Division, will be the sole and exclusive forum for (1) any derivative action or proceeding brought on our behalf, (2) any action asserting a claim of breach of any duty owed by any director or officer or other employee of ours to us or our stockholders, (3) any action asserting a claim against us or any director or officer or other employee of ours arising pursuant to any provision of the MGCL or the our charter or our bylaws, or (4) any other action asserting a claim against us or any director or officer or other employee of ours that is governed by the internal affairs doctrine.

Maryland Business Combination Act

The MGCL establishes special requirements for “business combinations” between a Maryland corporation and “interested stockholders” unless exemptions are applicable. An interested stockholder is defined as (i) any person who beneficially owns 10% or more of the voting power of a corporation’s then outstanding voting stock or (ii) an affiliate or associate of the corporation who, at any time within the two-year period immediately before the date in question, was the beneficial owner of 10% or more of the voting power of the corporation’s then outstanding voting stock. Among other things, the law prohibits for a period of five years a merger and other similar transactions between a corporation and an interested stockholder unless the corporation’s board of directors approves the transaction prior to the party becoming an interested stockholder. The five-year period runs from the most recent date on which the interested stockholder became an interested stockholder. The law also requires a supermajority stockholder vote for such transactions after the end of the five-year period. This means that the transaction must be approved by at least:

- 80% of the votes entitled to be cast by holders of outstanding voting shares; and
- two-thirds of the votes entitled to be cast by holders of outstanding voting shares other than shares held by the interested stockholder or an affiliate or associate of the interested stockholder with whom the business combination is to be effected.

These super-majority vote requirements do not apply if the corporation's common stockholders receive a minimum price, as defined under the MGCL, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares.

The MGCL permits various exemptions from its provisions, including business combinations that are exempted by our Board before the time that the interested stockholder becomes an interested stockholder. Pursuant to the MGCL, we have elected not to be governed by the Maryland business combination statute. We made this election by opting out of this statute in our charter. If, however, we amend our charter to opt back in to the statute, which amendment would be subject to stockholder approval, the business combination statute could have the effect of discouraging offers to acquire us and of increasing the difficulty of consummating any such offers, even if our acquisition would be in our stockholders' best interests.

Maryland Control Share Acquisition Act

Maryland law provides that "control shares" of a Maryland corporation acquired in a "control share acquisition" have no voting rights except to the extent approved by a vote of the other stockholders. Two-thirds of the shares eligible to vote must vote in favor of granting the "control shares" voting rights. Shares held by (i) the person who has made or proposes to make such acquisition, (ii) any officer of the corporation and (iii) any employee of the corporation who is also a director of the corporation are not eligible to vote. "Control shares" are shares of stock that, taken together with all other shares of stock the acquirer previously acquired, would entitle the acquirer to exercise voting power in electing directors within one of the following ranges of voting power:

- one-tenth or more but less than one-third of all voting power;
- one-third or more but less than a majority of all voting power; or
- a majority or more of all voting power.

Control shares do not include shares of stock the acquiring person is entitled to vote as a result of having previously obtained stockholder approval. A "control share acquisition" means the acquisition of control shares, subject to certain exceptions.

If a person who has made (or proposes to make) a control share acquisition satisfies certain conditions (including agreeing to pay expenses and making an "acquiring person statement" as described in the MGCL), he or she may compel our Board to call a special meeting of stockholders to consider the voting rights of the shares. If such a person makes no request for a meeting, we have the option to present the question at any stockholders' meeting.

If voting rights are not approved at a meeting of stockholders, then, subject to certain conditions and limitations, we may redeem any or all of the control shares (except those for which voting rights have previously been approved) for fair value. We will determine the fair value of the shares, without regard to the absence of voting rights, as of the date of either:

- the last control share acquisition; or
- if we hold a meeting where stockholders consider and do not approve voting rights of the control shares, as of the date of such meeting.

If voting rights for control shares are approved at a stockholders' meeting and the acquirer becomes entitled to vote a majority of the shares of stock entitled to vote, all other stockholders may obtain rights as objecting stockholders and, thereunder, exercise appraisal rights. This means that stockholders would be able to force us to redeem such stock for fair value. Under Maryland law, the fair value may not be less than the highest price per share paid in the control share acquisition. Furthermore, certain limitations otherwise applicable to the exercise of dissenters' rights would not apply in the context of a control share acquisition. The control share acquisition statute would not apply to shares acquired in a merger, consolidation or share exchange if we were a party to the transaction. The control share acquisition statute could have the effect of

discouraging offers to acquire us and of increasing the difficulty of consummating any such offers, even if our acquisition would be in our stockholders' best interests.

Amendment to Charter and Bylaws

Except as provided in the MGCL, amendments to our charter must be advised by our Board and approved by the affirmative vote of our stockholders entitled to cast a majority of all of the votes entitled to be cast on the matter. Our bylaws may be amended by our Board or by the affirmative vote of our stockholders entitled to cast a majority of all of the votes entitled to be cast on the matter.

Subtitle 8

Subtitle 8 of Title 3 of the MGCL permits a Maryland corporation with a class of equity securities registered under the Exchange Act and at least three independent directors to elect, by provision in its charter or bylaws or a resolution of its board of directors and notwithstanding any contrary provision in the charter or bylaws, to be subject to any or all of the following five provisions:

- a classified board;
- a two-thirds vote requirement for removing a director;
- a requirement that the number of directors be fixed only by vote of the directors;
- a requirement that a vacancy on the board be filled only by a vote of the remaining directors (whether or not they constitute a quorum) and for the remainder of the full term of the class of directors in which the vacancy occurred and until a successor is elected and qualifies; or
- a majority requirement for the calling of a special meeting of stockholders.

Although we have not specifically elected to be subject to any of the provisions of Subtitle 8, through provisions in our bylaws unrelated to Subtitle 8, we (1) require, unless called by the chairman of our Board, our chief executive officer, our president or our Board, the request of stockholders entitled to cast not less than a majority of all the votes entitled to be cast at the meeting to call a special meeting of stockholders, and (2) allow a majority of our Board to fix the number of directors without stockholder approval.

Meetings of Stockholders

Under our bylaws and pursuant to Maryland law, annual meetings of stockholders will be held each year at a date and at the time and place determined by our Board. Special meetings of stockholders may be called by our Board, the chairman of our Board, our president or our chief executive officer. Additionally, subject to the provisions of our bylaws, special meetings of the stockholders to act on any matter must be called by our secretary upon the written request of stockholders entitled to cast not less than a majority of all the votes entitled to be cast on such matter at such meeting who have requested the special meeting in accordance with the procedures set forth in, and provided the information and certifications required by, our bylaws. Only matters set forth in the notice of the special meeting may be considered and acted upon at such a meeting. Our secretary will inform the requesting stockholders of the reasonably estimated cost of preparing and delivering the notice of meeting (including our proxy materials), and the requesting stockholder or stockholders must pay such estimated cost before our secretary may prepare and deliver the notice of the special meeting.

Advance Notice of Director Nominations and New Business

Our bylaws provide that:

- with respect to an annual meeting of stockholders, nominations of individuals for election to our Board and the proposal of business to be considered by stockholders at the annual meeting may be made only:
 - o pursuant to our notice of the meeting;

- o by or at the direction of our Board; or
- o by a stockholder who was a stockholder of record at the record date set by our Board for the meeting, at the time of giving of the notice of the meeting and at the time of the annual meeting (and any postponement or adjustment thereof), who is entitled to vote at the meeting in the election of each individual so nominated or on such other business and who has complied with the advance notice procedures set forth in, and provided the information and certifications required by, our bylaws; and
- with respect to special meetings of stockholders, only the business specified in our notice of meeting may be brought before the special meeting of stockholders, and nominations of individuals for election to our Board may be made only:
 - o by or at the direction of our Board;
 - o by a stockholder that has requested a special meeting be called for the purpose of electing directors in compliance with our bylaws; or
 - o provided that the meeting has been called in accordance with our bylaws for the purpose of electing directors, by a stockholder who is a stockholder of record at the record date set by our Board for the meeting, at the time of giving of the notice required by our bylaws and at the time of the meeting (and any postponement or adjustment thereof), who is entitled to vote at the meeting in the election of each individual so nominated and who has complied with the advance notice provisions set forth in, and provided the information and certifications required by, our bylaws.

The purpose of requiring stockholders to give advance notice of nominations and other proposals is to afford our Board and our stockholders the opportunity to consider the qualifications of the proposed nominees or the advisability of the other proposals and, to the extent considered necessary by our Board, to inform stockholders and make recommendations regarding the nominations or other proposals. Although our bylaws do not give our Board the power to disapprove timely stockholder nominations and proposals, our bylaws may have the effect of precluding a contest for the election of directors or proposals for other action if the proper procedures are not followed, and of discouraging or deterring a third party from conducting a solicitation of proxies to elect its own slate of directors to our Board or to approve its own proposal.

Description of Common Stock

The following description of the terms of our common stock is only a summary. This summary is not complete and is qualified by the provisions of our charter and bylaws, which have been filed with the SEC and incorporated by reference herein, and the MGCL.

General

Our charter provides that we may issue up to 2,914,850,000 shares of our common stock. All of the outstanding shares of the common stock are duly authorized, fully paid and nonassessable.

Voting

Subject to our charter restrictions on ownership and transfer of our stock and the terms of any other class or series of our stock, including the Class D Preferred Stock, Class F Preferred Stock, Class G Preferred Stock and Class I Preferred Stock, each outstanding share of our common stock entitles the holder thereof to one vote on all matters submitted to a vote of stockholders, including the election of directors. Cumulative voting in the election of directors is not permitted. Each nominee for director shall be elected by a majority of the votes cast. A majority of the votes cast means the affirmative vote of a majority of the total votes cast “for” and “against” such nominee. Notwithstanding the foregoing, a nominee for director shall be elected by a plurality of the votes cast if the number of nominees exceeds the number of directors to be elected. If an incumbent director fails to receive the required vote for re-election, under our current bylaws our Board is required to publicly disclose whether it has requested and accepted the resignation of such director and, if applicable, its decision regarding any tendered resignation and its rationale.

Dividends; Liquidation; Other Rights

Holders of our common stock are entitled to receive dividends if and when authorized by our Board and declared by us out of legally available funds. The right of holders of our common stock to receive dividends is subordinate to the rights of holders of our preferred stock or other senior securities. If we liquidate, dissolve or wind-up, our holders of common stock will share ratably in all of our assets remaining after the payment of all of our liabilities and the payment of all liquidation and other preference amounts to holders of our preferred stock and other senior securities. Holders of our common stock have no preemptive or other subscription rights, and there are no conversion rights, or redemption or sinking fund provisions, relating to the shares of common stock.

Listing

The Company’s common stock is listed on The New York Stock Exchange under the trading symbol “NLY.”

Transfer Agent and Registrar

Computershare Inc. is the transfer agent and registrar for our common stock.

Description of the Series D Preferred Stock

The description of certain terms of the Series D Preferred Stock in this exhibit does not purport to be complete and is in all respects subject to, and qualified in its entirety by references to the relevant provisions of our charter, the articles supplementary for Series D Preferred Stock, our bylaws and Maryland law.

General

Pursuant to our charter, our Board classified and designated 18,400,000 shares of the Series D Preferred Stock. Our Board may, without the approval of holders of Series D Preferred Stock, Series F Preferred Stock, Series G Preferred Stock, Series I Preferred Stock or our common stock, designate additional classes or series of authorized preferred stock ranking junior to or on parity with the Series D Preferred Stock or designate additional shares of the Series D Preferred Stock and authorize the issuance of such shares.

Listing

Our Series D Preferred Stock is listed on the New York Stock Exchange under the symbol “NYL.D”.

Transfer Agent and Registrar

The registrar, transfer agent and dividend and redemption price disbursing agent in respect of the Series D Preferred Stock is Computershare Inc.

Maturity

The Series D Preferred Stock has no stated maturity and is not subject to any sinking fund or mandatory redemption. Shares of the Series D Preferred Stock will remain outstanding indefinitely unless we decide to redeem or otherwise repurchase them or they become convertible and are converted as described below under “—Conversion Rights.” We are not required to set aside funds to redeem the Series D Preferred Stock.

Ranking

The Series D Preferred Stock ranks, with respect to rights to the payment of dividends and the distribution of assets upon our liquidation, dissolution or winding up:

- (1) senior to our common stock and any class or series of stock we may issue in the future that by its terms ranks junior to the Series D Preferred Stock with respect to the payment of dividends and the distribution of assets in the event of our liquidation, dissolution, or winding up,
- (2) on parity with our Series F Preferred Stock, our Series G Preferred Stock, our Series I Preferred Stock, and any other class or series of stock issued by us from time to time that by its terms ranks on parity with the Series D Preferred Stock, Series F Preferred Stock, Series G Preferred Stock and Series I Preferred Stock with respect to the payment of dividends and the distribution of assets in the event of our liquidation, dissolution or winding up,
- (3) junior to any class or series of stock we may issue in the future that by its terms ranks senior to the Series D Preferred Stock with respect to the payment of dividends and the distribution of assets in the event of our liquidation, dissolution or winding up; and
- (4) effectively junior to all of our existing and future indebtedness (including indebtedness convertible into or exchangeable for our common stock or preferred stock) and the indebtedness of our existing and future subsidiaries.

Dividends

Holders of shares of the Series D Preferred Stock are entitled to receive, when, as and if declared by our Board, out of funds legally available for the payment of dividends, cumulative cash dividends at the rate of 7.50% of the \$25.00 per share liquidation preference per annum (equivalent to \$1.875 per annum per share). Dividends on the Series D Preferred Stock shall accrue daily and be cumulative from, and including, the date of original issue and shall be payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year (each, a “dividend payment date”); provided that if any dividend payment date is not a business day, as defined in the articles supplementary classifying and designating the Series D Preferred Stock, then the dividend which would otherwise have been payable on that dividend payment date may be paid on the next succeeding business day and no interest, additional dividends or other sums will accrue on the amount so payable for the period from and after that dividend payment date to that next succeeding business day. Any dividend payable on the Series D Preferred Stock, including dividends payable for any partial dividend period, will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends will be payable to holders of record as they appear in our stock records for the Series D Preferred Stock at the close of business on the applicable record date, which shall be the first day of the calendar month, whether or not a business day, in which the applicable dividend payment date falls (each, a “dividend record date”). Dividends for any period shall accumulate to, but not include, the dividend payment date.

No dividends on shares of Series D Preferred Stock shall be authorized by our Board or paid or set apart for payment by us at any time when the terms and provisions of any agreement of ours, including any agreement relating to our indebtedness, prohibit the authorization, payment or setting apart for payment thereof or provide that the authorization, payment or setting apart for payment thereof would constitute a breach of the agreement or a default under the agreement, or if the authorization, payment or setting apart for payment shall be restricted or prohibited by law.

Notwithstanding the foregoing, dividends on the Series D Preferred Stock will accrue whether or not we have earnings, whether or not there are funds legally available for the payment of those dividends and whether or not those dividends are declared. No interest, or sum in lieu of interest, will be payable in respect of any dividend payment or payments on the Series D Preferred Stock which may be in arrears, and holders of the Series D Preferred Stock will not be entitled to any dividends in excess of full cumulative dividends described above. Any dividend payment made on the Series D Preferred Stock shall first be credited against the earliest accumulated but unpaid dividend due with respect to those shares.

Future distributions on our common stock and preferred stock, including the Series D Preferred Stock, will be at the discretion of our Board and will depend on, among other things, our results of operations, cash flow from operations, financial condition and capital requirements, the annual distribution requirements under the REIT provisions of the Code, any debt service requirements and any other factors our Board deems relevant. Accordingly, we cannot guarantee that we will be able to make cash distributions on our preferred stock or what the actual distributions will be for any future period.

Unless full cumulative dividends on the Series D Preferred Stock have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for payment for all past dividend periods, no dividends (other than in shares of common stock or in shares of any series of preferred stock that we may issue ranking junior to the Series D Preferred Stock as to dividends and upon liquidation) shall be declared or paid or set aside for payment upon shares of our common stock or preferred stock that we may issue ranking junior to or on a parity with the Series D Preferred Stock (including our Series F Preferred Stock, Series G Preferred Stock and Series I Preferred Stock) as to dividends or upon liquidation. Nor shall any other distribution be declared or made upon shares of our common stock or preferred stock that we may issue ranking junior to or on a parity with the Series D Preferred Stock (including our Series F Preferred Stock, Series G Preferred Stock and Series I Preferred Stock) as to dividends or upon liquidation. In addition, any shares of our common stock or preferred stock that we may issue ranking junior to or on a parity with the Series D Preferred Stock (including our Series F Preferred Stock, Series G Preferred Stock and Series I Preferred Stock) as to dividends or upon liquidation shall not be redeemed, purchased or

otherwise acquired for any consideration (or any moneys be paid to or made available for a sinking fund for the redemption of any such shares) by us (except by conversion into or exchange for our other capital stock that we may issue ranking junior to the Series D Preferred Stock as to dividends and upon liquidation and except for transfers made pursuant to the provisions of our charter relating to restrictions on ownership and transfers of our capital stock).

When dividends are not paid in full (or a sum sufficient for such full payment is not so set apart) upon the Series D Preferred Stock, Series F Preferred Stock, Series G Preferred Stock, Series I Preferred Stock and the shares of any other series of preferred stock that we may issue ranking on a parity as to dividends with the Series D Preferred Stock, all dividends declared upon the Series D Preferred Stock and any other series of preferred stock ranking on a parity that we may issue as to dividends with the Series D Preferred Stock shall be declared pro rata so that the amount of dividends declared per share of Series D Preferred Stock and such other series of preferred stock that we may issue shall in all cases bear to each other the same ratio that accrued dividends per share on the Series D Preferred Stock and such other series of preferred stock that we may issue (which shall not include any accrual in respect of unpaid dividends for prior dividend periods if such preferred stock does not have a cumulative dividend) bear to each other. No interest, or sum of money in lieu of interest, shall be payable in respect of any dividend payment or payments on the Series D Preferred Stock which may be in arrears.

Liquidation Preference

In the event of our voluntary or involuntary liquidation, dissolution or winding up, the holders of shares of Series D Preferred Stock will be entitled to be paid out of the assets we have legally available for distribution to our stockholders, subject to the preferential rights of the holders of any class or series of our stock we may issue ranking senior to the Series D Preferred Stock with respect to the distribution of assets upon liquidation, dissolution or winding up, a liquidation preference of \$25.00 per share, plus an amount equal to any accumulated and unpaid dividends to, but not including, the date of payment, before any distribution of assets is made to holders of our common stock or any other class or series of our stock we may issue that ranks junior to the Series D Preferred Stock as to liquidation rights.

In the event that, upon any such voluntary or involuntary liquidation, dissolution or winding up, our available assets are insufficient to pay the amount of the liquidating distributions on all outstanding shares of Series D Preferred Stock, Series F Preferred Stock, Series G Preferred Stock, Series I Preferred Stock and the corresponding amounts payable on all shares of other classes or series of our capital stock that we may issue ranking on a parity with the Series D Preferred Stock in the distribution of assets, then the holders of the Series D Preferred Stock, Series F Preferred Stock, Series G Preferred Stock, Series I Preferred Stock and all other such classes or series of capital stock shall share ratably in any such distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled.

Holders of Series D Preferred Stock will be entitled to written notice of any such liquidation no fewer than 30 days and no more than 60 days prior to the payment date. After payment of the full amount of the liquidating distributions to which they are entitled, the holders of Series D Preferred Stock will have no right or claim to any of our remaining assets. The consolidation or merger of us with or into any other corporation, trust or entity or of any other entity with or into us, or the sale, lease, transfer or conveyance of all or substantially all of our property or business, shall not be deemed to constitute a liquidation, dissolution or winding up of us (although such events may give rise to the special optional redemption and contingent conversion rights described below).

Redemption

Optional Redemption. We may, at our option, upon not less than 30 nor more than 60 days' written notice, redeem the Series D Preferred Stock, in whole or in part, at any time or from time to time, for cash at a redemption price of \$25.00 per share, plus any accumulated and unpaid dividends thereon to, but not including, the date fixed for redemption. If we elect to redeem any shares of Series D Preferred Stock as

described in this paragraph, we may use any available cash to pay the redemption price, and we will not be required to pay the redemption price only out of the proceeds from the issuance of other equity securities or any other specific source.

Special Optional Redemption. Upon the occurrence of a Change of Control (as defined below), we may, at our option, upon not less than 30 nor more than 60 days' written notice, redeem the Series D Preferred Stock, in whole or in part, within 120 days after the first date on which such Change of Control occurred, for cash at a redemption price of \$25.00 per share, plus any accumulated and unpaid dividends thereon to, but not including, the date fixed for redemption. If, prior to the Change of Control Conversion Date (as defined below), we have provided notice of our election to redeem some or all of the shares of Series D Preferred Stock (whether pursuant to our optional redemption right described above under “—Optional Redemption” or this special optional redemption right), the holders of Series D Preferred Stock will not have the Change of Control Conversion Right (as defined below) described below under “—Conversion Rights” with respect to the shares called for redemption. If we elect to redeem any shares of the Series D Preferred Stock as described in this paragraph, we may use any available cash to pay the redemption price, and we will not be required to pay the redemption price only out of the proceeds from the issuance of other equity securities or any other specific source.

A “Change of Control” is deemed to occur when, after the original issuance of the Series D Preferred Stock, the following have occurred and are continuing:

- the acquisition by any person, including any syndicate or group deemed to be a “person” under Section 13(d)(3) of the Exchange Act, of beneficial ownership, directly or indirectly, through a purchase, merger or other acquisition transaction or series of purchases, mergers or other acquisition transactions of our stock entitling that person to exercise more than 50% of the total voting power of all our stock entitled to vote generally in the election of our directors (except that such person will be deemed to have beneficial ownership of all securities that such person has the right to acquire, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition); and
- following the closing of any transaction referred to in the bullet point above, neither we nor the acquiring or surviving entity has a class of common securities (or American Depositary Receipts representing such securities) listed on the NYSE, the NYSE American LLC or Nasdaq, or listed or quoted on an exchange or quotation system that is a successor to the NYSE, the NYSE American LLC or Nasdaq.

Redemption Procedures. In the event we elect to redeem Series D Preferred Stock, the notice of redemption will be mailed to each holder of record of Series D Preferred Stock called for redemption at such holder's address as it appears on our stock transfer records and will state the following:

- the redemption date;
- the number of shares of Series D Preferred Stock to be redeemed;
- the redemption price;
- the place or places where certificates (if any) for the Series D Preferred Stock are to be surrendered for payment of the redemption price;
- that dividends on the shares to be redeemed will cease to accumulate on the redemption date;
- whether such redemption is being made pursuant to the provisions described above under “—Optional Redemption” or “—Special Optional Redemption”;
- if applicable, that such redemption is being made in connection with a Change of Control and, in that case, a brief description of the transaction or transactions constituting such Change of Control; and
- if such redemption is being made in connection with a Change of Control, that the holders of the shares of Series D Preferred Stock being so called for redemption will not be able to tender such shares of Series D Preferred Stock for conversion in connection with the Change of Control and that each share of Series D Preferred Stock tendered for conversion that is called, prior to

the Change of Control Conversion Date, for redemption will be redeemed on the related date of redemption instead of converted on the Change of Control Conversion Date.

If less than all of the Series D Preferred Stock held by any holder are to be redeemed, the notice mailed to such holder shall also specify the number of shares of Series D Preferred Stock held by such holder to be redeemed. No failure to give such notice or any defect thereto or in the mailing thereof shall affect the validity of the proceedings for the redemption of any shares of Series D Preferred Stock except as to the holder to whom notice was defective or not given.

Holders of Series D Preferred Stock to be redeemed shall surrender the Series D Preferred Stock at the place designated in the notice of redemption and shall be entitled to the redemption price and any accumulated and unpaid dividends payable upon the redemption following the surrender. If notice of redemption of any shares of Series D Preferred Stock has been given and if we have irrevocably set aside the funds necessary for redemption in trust for the benefit of the holders of the shares of Series D Preferred Stock so called for redemption, then from and after the redemption date (unless default shall be made by us in providing for the payment of the redemption price plus accumulated and unpaid dividends, if any), dividends will cease to accrue on those shares of Series D Preferred Stock, those shares of Series D Preferred Stock shall no longer be deemed outstanding and all rights of the holders of those shares will terminate, except the right to receive the redemption price plus accumulated and unpaid dividends, if any, payable upon redemption. If any redemption date is not a business day, then the redemption price and accumulated and unpaid dividends, if any, payable upon redemption may be paid on the next business day and no interest, additional dividends or other sums will accrue on the amount payable for the period from and after that redemption date to that next business day. If less than all of the outstanding Series D Preferred Stock is to be redeemed, the Series D Preferred Stock to be redeemed shall be selected pro rata (as nearly as may be practicable without creating fractional shares).

Immediately prior to any redemption of Series D Preferred Stock, we shall pay, in cash, any accumulated and unpaid dividends through and including the redemption date, unless a redemption date falls after a dividend record date and prior to the corresponding dividend payment date, in which case each holder of Series D Preferred Stock at the close of business on such dividend record date shall be entitled to the dividend payable on such shares on the corresponding dividend payment date notwithstanding the redemption of such shares before such dividend payment date. Except as provided above, we will make no payment or allowance for unpaid dividends, whether or not in arrears, on shares of the Series D Preferred Stock to be redeemed.

Unless full cumulative dividends on all shares of Series D Preferred Stock shall have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof has been or contemporaneously is set apart for payment for all past dividend periods, no shares of Series D Preferred Stock shall be redeemed unless all outstanding shares of Series D Preferred Stock are simultaneously redeemed and we shall not purchase or otherwise acquire directly or indirectly any shares of Series D Preferred Stock (except by exchanging it for our capital stock ranking junior to the Series D Preferred Stock as to dividends and upon liquidation); provided, however, that the foregoing shall not prevent the purchase or acquisition by us of shares of Series D Preferred Stock to preserve our REIT status or pursuant to a purchase or exchange offer made on the same terms to holders of all outstanding shares of Series D Preferred Stock.

Subject to applicable law, we may purchase shares of Series D Preferred Stock in the open market, by tender or by private agreement. Any shares of Series D Preferred Stock that we acquire may be retired and re-classified as authorized but unissued shares of preferred stock, without designation as to class or series, and may thereafter be reissued as any class or series of preferred stock.

Conversion Rights

Upon the occurrence of a Change of Control, each holder of Series D Preferred Stock will have the right (unless, prior to the Change of Control Conversion Date, we have provided notice of our election to

redeem some or all of the shares of Series D Preferred Stock held by such holder as described above under “—Redemption,” in which case such holder will have the right only with respect to shares of Series D Preferred Stock that are not called for redemption) to convert some or all of the Series D Preferred Stock held by such holder (the “Change of Control Conversion Right”) on the Change of Control Conversion Date into a number of shares of our common stock per share of Series D Preferred Stock (the “Common Stock Conversion Consideration”) equal to the lesser of:

- the quotient obtained by dividing (i) the sum of the \$25.00 liquidation preference per share of Series D Preferred Stock plus the amount of any accumulated and unpaid dividends thereon to, but not including, the Change of Control Conversion Date (unless the Change of Control Conversion Date is after a dividend record date and prior to the corresponding dividend payment date for the Series D Preferred Stock, in which case no additional amount for such accrued and unpaid dividends will be included in this sum) by (ii) the Common Stock Price, as defined below (such quotient, the “Conversion Rate”); and
- 2.85225 (the “Share Cap”), subject to certain adjustments as described below.

Anything in our charter to the contrary notwithstanding and except as otherwise required by law, the persons who are the holders of record of shares of Series D Preferred Stock at the close of business on a dividend record date will be entitled to receive the dividend payable on the corresponding dividend payment date notwithstanding the conversion of those shares after such dividend record date and on or prior to such dividend payment date and, in such case, the full amount of such dividend shall be paid on such dividend payment date to the persons who were the holders of record at the close of business on such dividend record date. Except as provided in this paragraph, we will make no allowance for unpaid dividends that are not in arrears on the shares of Series D Preferred Stock to be converted.

The Share Cap is subject to pro rata adjustments for any share splits (including those effected pursuant to a distribution of our common stock to existing holders of our common stock), subdivisions or combinations (in each case, a “Share Split”) with respect to our common stock as follows: the adjusted Share Cap as the result of a Share Split will be the number of shares of our common stock that is equivalent to the product obtained by multiplying (i) the Share Cap in effect immediately prior to such Share Split by (ii) a fraction, the numerator of which is the number of shares of our common stock outstanding immediately after giving effect to such Share Split and the denominator of which is the number of shares of our common stock outstanding immediately prior to such Share Split.

For the avoidance of doubt, subject to the immediately succeeding paragraph, the aggregate number of shares of our common stock (or equivalent Alternative Conversion Consideration (as defined below), as applicable) issuable or deliverable, as applicable, in connection with the exercise of the Change of Control Conversion Right will not exceed 45,636,000 shares of our common stock (or equivalent Alternative Conversion Consideration, as applicable), subject to proportionate increase to the extent the underwriters’ over-allotment option to purchase additional shares of Series D Preferred Stock is exercised, not to exceed 52,481,400 shares of our common stock in total (or equivalent Alternative Conversion Consideration, as applicable) (the “Exchange Cap”). The Exchange Cap is subject to pro rata adjustments for any Share Splits on the same basis as the corresponding adjustment to the Share Cap.

In the case of a Change of Control pursuant to which our common stock is or will be converted into cash, securities or other property or assets (including any combination thereof) (the “Alternative Form Consideration”), a holder of Series D Preferred Stock will receive upon conversion of such Series D Preferred Stock the kind and amount of Alternative Form Consideration which such holder would have owned or been entitled to receive upon the Change of Control had such holder held a number of shares of our common stock equal to the Common Stock Conversion Consideration immediately prior to the effective time of the Change of Control (the “Alternative Conversion Consideration”; the Common Stock Conversion Consideration or the Alternative Conversion Consideration, whichever shall be applicable to a Change of Control, is referred to as the “Conversion Consideration”).

If the holders of our common stock have the opportunity to elect the form of consideration to be received in the Change of Control, the Conversion Consideration in respect of such Change of Control will be deemed to be the kind and amount of consideration actually received by holders of a majority of the outstanding shares of our common stock that made or voted for such an election (if electing between two types of consideration) or holders of a plurality of the outstanding shares of our common stock that made or voted for such an election (if electing between more than two types of consideration), as the case may be, and will be subject to any limitations to which all holders of our common stock are subject, including, without limitation, pro rata reductions applicable to any portion of the consideration payable in such Change of Control.

We will not issue fractional shares of our common stock upon the conversion of the Series D Preferred Stock in connection with a Change of Control. Instead, we will make a cash payment equal to the value of such fractional shares based upon the Common Stock Price used in determining the Common Stock Conversion Consideration for such Change of Control.

Within 15 days following the occurrence of a Change of Control, provided that we have not then exercised our right to redeem all shares of Series D Preferred Stock pursuant to the redemption provisions described above, we will provide to holders of Series D Preferred Stock a notice of occurrence of the Change of Control that describes the resulting Change of Control Conversion Right. This notice will state the following:

- the events constituting the Change of Control;
- the date of the Change of Control;
- the last date on which the holders of Series D Preferred Stock may exercise their Change of Control Conversion Right;
- the method and period for calculating the Common Stock Price;
- the Change of Control Conversion Date;
- that if, prior to the Change of Control Conversion Date, we have provided notice of our election to redeem all or any shares of Series D Preferred Stock, holders will not be able to convert the shares of Series D Preferred Stock called for redemption and such shares will be redeemed on the related redemption date, even if such shares have already been tendered for conversion pursuant to the Change of Control Conversion Right;
- if applicable, the type and amount of Alternative Conversion Consideration entitled to be received per share of Series D Preferred Stock;
- the name and address of the paying agent, transfer agent and conversion agent for the Series D Preferred Stock;
- the procedures that the holders of Series D Preferred Stock must follow to exercise the Change of Control Conversion Right (including procedures for surrendering shares for conversion through the facilities of a Depository (as defined below)), including the form of conversion notice to be delivered by such holders as described below; and
- the last date on which holders of Series D Preferred Stock may withdraw shares surrendered for conversion and the procedures that such holders must follow to effect such a withdrawal.

Under such circumstances, we will also issue a press release containing such notice for publication on Dow Jones & Company, Inc., Business Wire, PR Newswire or Bloomberg Business News (or, if these organizations are not in existence at the time of issuance of the press release, such other news or press organization as is reasonably calculated to broadly disseminate the relevant information to the public), and post a notice on our website, in any event prior to the opening of business on the first business day following any date on which we provide the notice described above to the holders of Series D Preferred Stock.

To exercise the Change of Control Conversion Right, the holders of Series D Preferred Stock will be required to deliver, on or before the close of business on the Change of Control Conversion Date, the certificates (if any) representing the shares of Series D Preferred Stock to be converted, duly endorsed for transfer (or, in the case of any shares of Series D Preferred Stock held in book-entry form through a Depository,

to deliver, on or before the close of business on the Change of Control Conversion Date, the shares of Series D Preferred Stock to be converted through the facilities of such Depository), together with a written conversion notice in the form provided by us, duly completed, to our transfer agent. The conversion notice must state:

- the relevant Change of Control Conversion Date;
- the number of shares of Series D Preferred Stock to be converted; and
- that the Series D Preferred Stock is to be converted pursuant to the applicable provisions of the Series D Preferred Stock.

The “Change of Control Conversion Date” is the date the Series D Preferred Stock is to be converted, which will be a business day selected by us that is no fewer than 20 days nor more than 35 days after the date on which we provide the notice described above to the holders of Series D Preferred Stock.

The “Common Stock Price” is (i) if the consideration to be received in the Change of Control by the holders of our common stock is solely cash, the amount of cash consideration per share of our common stock or (ii) if the consideration to be received in the Change of Control by holders of our common stock is other than solely cash (x) the average of the closing sale prices per share of our common stock (or, if no closing sale price is reported, the average of the closing bid and ask prices per share or, if more than one in either case, the average of the average closing bid and the average closing ask prices per share) for the ten consecutive trading days immediately preceding, but not including, the date on which such Change of Control occurred as reported on the principal U.S. securities exchange on which our common stock is then traded, or (y) the average of the last quoted bid prices for our common stock in the over-the-counter market as reported by Pink OTC Markets Inc. or similar organization for the ten consecutive trading days immediately preceding, but not including, the date on which such Change of Control occurred, if our common stock is not then listed for trading on a U.S. securities exchange.

Holders of Series D Preferred Stock may withdraw any notice of exercise of a Change of Control Conversion Right (in whole or in part) by a written notice of withdrawal delivered to our transfer agent prior to the close of business on the business day prior to the Change of Control Conversion Date. The notice of withdrawal delivered by any holder must state:

- the number of withdrawn shares of Series D Preferred Stock;
- if certificated Series D Preferred Stock has been surrendered for conversion, the certificate numbers of the withdrawn shares of Series D Preferred Stock; and
- the number of shares of Series D Preferred Stock, if any, which remain subject to the holder’s conversion notice.

Notwithstanding the foregoing, if any shares of Series D Preferred Stock are held in book-entry form through The Depository Trust Company (or “DTC”) or a similar depository (each, a “Depository”), the conversion notice and/or the notice of withdrawal, as applicable, must comply with applicable procedures, if any, of the applicable Depository.

Series D Preferred Stock as to which the Change of Control Conversion Right has been properly exercised and for which the conversion notice has not been properly withdrawn will be converted into the applicable Conversion Consideration in accordance with the Change of Control Conversion Right on the Change of Control Conversion Date, unless prior to the Change of Control Conversion Date we have provided notice of our election to redeem some or all of the shares of Series D Preferred Stock, as described above under “—Redemption,” in which case only the shares of Series D Preferred Stock properly surrendered for conversion and not properly withdrawn that are not called for redemption will be converted as aforesaid. If we elect to redeem shares of Series D Preferred Stock that would otherwise be converted into the applicable Conversion Consideration on a Change of Control Conversion Date, such shares of Series D Preferred Stock will not be so converted and the holders of such shares will be entitled to receive on the applicable redemption date the redemption price described above under “—Redemption.”

We will deliver all securities, cash and any other property owing upon conversion no later than the third business day following the Change of Control Conversion Date. Notwithstanding the foregoing, the persons entitled to receive any shares of our common stock or other securities delivered on conversion will be deemed to have become the holders of record thereof as of the Change of Control Conversion Date.

In connection with the exercise of any Change of Control Conversion Right, we will comply with all federal and state securities laws and stock exchange rules in connection with any conversion of Series D Preferred Stock into shares of our common stock or other property. Notwithstanding any other provision of the Series D Preferred Stock, no holder of Series D Preferred Stock will be entitled to convert such Series D Preferred Stock into shares of our common stock to the extent that receipt of such common stock would cause such holder (or any other person) to exceed the applicable share ownership limitations contained in our charter, unless we provide an exemption from this limitation to such holder. Please see the section entitled “Description of Equity Securities—Restrictions on Ownership and Transfer” in this exhibit.

The Change of Control conversion feature may make it more difficult for a third party to acquire us or discourage a party from acquiring us.

Except as provided above in connection with a Change of Control, the Series D Preferred Stock is not convertible into or exchangeable for any other securities or property.

Voting Rights

Holders of the Series D Preferred Stock do not have any voting rights, except as set forth below or as otherwise required by law.

Whenever dividends on any shares of Series D Preferred Stock are in arrears for six or more quarterly dividend periods, whether or not consecutive, the number of directors constituting our Board will be automatically increased by two (if not already increased by two by reason of the election of directors by the holders of any other class or series of our preferred stock we may issue upon which like voting rights have been conferred and are exercisable and with which the Series D Preferred Stock is entitled to vote as a class with respect to the election of those two directors) and the holders of Series D Preferred Stock (voting separately as a class with all other classes or series of preferred stock we may issue upon which like voting rights have been conferred and are exercisable (including holders of our Series F Preferred Stock, Series G Preferred Stock and Series I Preferred Stock, if applicable) and which are entitled to vote as a class with the Series D Preferred Stock in the election of those two directors) will be entitled to vote for the election of those two additional directors at a special meeting called by us at the request of the holders of record of at least 25% of the outstanding shares of Series D Preferred Stock or by the holders of any other class or series of preferred stock upon which like voting rights have been conferred and are exercisable and which are entitled to vote as a class with the Series D Preferred Stock in the election of those two directors (unless the request is received less than 90 days before the date fixed for the next annual or special meeting of stockholders, in which case, such vote will be held at the earlier of the next annual or special meeting of stockholders), and at each subsequent annual meeting until all dividends accumulated on the Series D Preferred Stock for all past dividend periods and the then current dividend period shall have been fully paid or declared and a sum sufficient for the payment thereof set aside for payment. In that case, the right of holders of the Series D Preferred Stock to elect any directors will cease and, unless there are other classes or series of our preferred stock upon which like voting rights have been conferred and are exercisable, any directors elected by holders of the Series D Preferred Stock shall immediately resign and the number of directors constituting the board of directors shall be reduced accordingly. In no event shall the holders of Series D Preferred Stock be entitled pursuant to these voting rights to elect a director that would cause us to fail to satisfy a requirement relating to director independence of any national securities exchange or quotation system on which any class or series of our stock is listed or quoted. For the avoidance of doubt, in no event shall the total number of directors elected by holders of the Series D Preferred Stock (voting separately as a class with all other classes or series of preferred stock we may issue upon which like voting rights have

been conferred and are exercisable and which are entitled to vote as a class with the Series D Preferred Stock in the election of such directors) pursuant to these voting rights exceed two.

If a special meeting is not called by us within 30 days after request from the holders of Series D Preferred Stock as described above, then the holders of record of at least 25% of the outstanding Series D Preferred Stock may designate a holder to call the meeting at our expense.

On each matter on which holders of Series D Preferred Stock are entitled to vote, each share of Series D Preferred Stock will be entitled to one vote, except that when shares of any other class or series of our preferred stock have the right to vote with the Series D Preferred Stock as a single class on any matter, the Series D Preferred Stock and the shares of each such other class or series will have one vote for each \$25.00 of liquidation preference (excluding accumulated dividends).

So long as any shares of Series D Preferred Stock remain outstanding, we will not, without the affirmative vote or consent of the holders of at least two-thirds of the shares of the Series D Preferred Stock outstanding at the time, given in person or by proxy, either in writing or at a meeting (voting together as a class with our Series F Preferred Stock, our Series G Preferred Stock, our Series I Preferred Stock and all series of parity preferred that we may issue upon which like voting rights have been conferred and are exercisable), (a) authorize or create, or increase the authorized or issued amount of, any class or series of capital stock ranking senior to the Series D Preferred Stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up or reclassify any of our authorized capital stock into such shares, or create, authorize or issue any obligation or security convertible into or evidencing the right to purchase any such shares; or (b) amend, alter or repeal the provisions of our charter, whether by merger, consolidation or otherwise, so as to materially and adversely affect any right, preference, privilege or voting power of the Series D Preferred Stock (each, an "Event"); provided, however, with respect to the occurrence of any Event set forth in (b) above, so long as the Series D Preferred Stock remains outstanding with the terms thereof materially unchanged, taking into account that, upon an occurrence of an Event, we may not be the surviving entity, the occurrence of any such Event shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting power of holders of the Series D Preferred Stock; provided further, that if an Event set forth in (b) above affects materially and adversely any right, preference, privilege or voting power of the Series D Preferred Stock but not all of the series of parity preferred stock that we may issue upon which similar voting rights have been conferred and are exercisable (excluding our Series F Preferred Stock, our Series G Preferred Stock and our Series I Preferred Stock), the vote or consent that is required will be the vote or consent of the holders of at least two-thirds of the outstanding shares of the Series D Preferred Stock and all shares of future applicable series so affected; and, provided further, that any increase in the amount of the authorized common stock or preferred stock, including the Series D Preferred Stock, or the creation or issuance of any additional Series D Preferred Stock or other series of preferred stock that we may issue, or any increase in the amount of authorized shares of such series, in each case ranking on a parity with or junior to the Series D Preferred Stock that we may issue with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up, shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers.

The foregoing voting provisions will not apply if, at or prior to the time when the act with respect to which such vote would otherwise be required shall be effected, all outstanding shares of Series D Preferred Stock shall have been redeemed or called for redemption upon proper notice and sufficient funds shall have been deposited in trust to effect such redemption.

Except as expressly stated in our charter or as may be required by applicable law, the Series D Preferred Stock do not have any relative, participating, optional or other special voting rights or powers and the consent of the holders thereof shall not be required for the taking of any corporate action.

Information Rights

During any period in which we are not subject to Section 13 or 15(d) of the Exchange Act and any shares of Series D Preferred Stock are outstanding, we will use our best efforts to (i) transmit by mail (or other permissible means under the Exchange Act) to all holders of Series D Preferred Stock, as their names and addresses appear on our record books and without cost to such holders, copies of the annual reports on Form 10-K and quarterly reports on Form 10-Q that we would have been required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act if we were subject thereto (other than any exhibits that would have been required) and (ii) promptly, upon request, supply copies of such reports to any holders or prospective holder of Series D Preferred Stock. We will use our best effort to mail (or otherwise provide) the information to the holders of the Series D Preferred Stock within 15 days after the respective dates by which a periodic report on Form 10-K or Form 10-Q, as the case may be, in respect of such information would have been required to be filed with the SEC, if we were subject to Section 13 or 15(d) of the Exchange Act, in each case, based on the dates on which we would be required to file such periodic reports if we were a “non-accelerated filer” within the meaning of the Exchange Act.

Restrictions on Ownership and Transfer

To assist us in qualifying as a REIT, our charter and articles supplementary establishing the terms of the Series D Preferred Stock prohibit anyone from acquiring or holding, directly or constructively, ownership of a number of shares of any class of our capital stock in excess of 9.8% of the outstanding shares. For this purpose the term “ownership” generally means either direct ownership or constructive ownership in accordance with the constructive ownership provisions of Section 544 of the Code, as modified in Section 856(h) of the Code. These provisions may restrict the ability of a holder of Series D Preferred Stock to convert such stock into our common stock as described above under “—Conversion Rights.” Our board of directors may, in its sole discretion, exempt a person from the 9.8% ownership limit under certain circumstances as described under “Description of Equity Securities—Restrictions on Ownership and Transfer” in this exhibit.

For further information regarding restrictions on ownership and transfer of the Series D Preferred Stock, please see the section entitled “Description of Equity Securities—Restrictions on Ownership and Transfer” in this exhibit.

Preemptive Rights

No holders of the Series D Preferred Stock, as holders of Series D Preferred Stock, have any preemptive rights to purchase or subscribe for our common stock or our any other security.

Book-Entry Procedures

DTC acts as securities depository for the Series D Preferred Stock. We have issued one or more fully registered global securities certificates in the name of DTC’s nominee, Cede & Co. These certificates represent the total aggregate number of shares of Series D Preferred Stock. We have deposited these certificates with DTC or a custodian appointed by DTC. We will not issue certificates to holders of the Series D Preferred Stock for the shares of Series D Preferred Stock that are purchased, unless DTC’s services are discontinued as described below.

Title to book-entry interests in the Series D Preferred Stock will pass by book-entry registration of the transfer within the records of DTC in accordance with its procedures. Book-entry interests in the securities may be transferred within DTC in accordance with procedures established for these purposes by DTC. Each person owning a beneficial interest in shares of the Series D Preferred Stock must rely on the procedures of DTC and the participant through which such person owns its interest to exercise its rights as a holder of the Series D Preferred Stock.

DTC has advised us that it is a limited-purpose trust company organized under the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered under the provisions of Section 17A of the Exchange Act. DTC holds securities that its participants (“Direct Participants”) deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. Access to the DTC system is also available to others such as securities brokers and dealers, including the underwriters, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The rules applicable to DTC and its Direct and Indirect Participants are on file with the SEC.

When shares of Series D Preferred Stock are purchased within the DTC system, the purchase must be by or through a Direct Participant. The Direct Participant will receive a credit for the Series D Preferred Stock on DTC’s records. Holders of the Series D Preferred Stock will be considered to be the “beneficial owner” of the Series D Preferred Stock. Such beneficial ownership interest will be recorded on the Direct and Indirect Participants’ records, but DTC will have no knowledge of individual ownership. DTC’s records reflect only the identity of the Direct Participants to whose accounts shares of Series D Preferred Stock are credited.

Holders of the Series D Preferred Stock will not receive written confirmation from DTC of the purchase. The Direct or Indirect Participants through whom the Series D Preferred Stock were purchased should send such holders written confirmations providing details of the transactions, as well as periodic statements of the holdings. The Direct and Indirect Participants are responsible for keeping an accurate account of the holdings of their customers.

Transfers of ownership interests held through Direct and Indirect Participants will be accomplished by entries on the books of Direct and Indirect Participants acting on behalf of the beneficial owners.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

We understand that, under DTC’s existing practices, in the event that we request any action of the holders, or an owner of a beneficial interest in a global security, such as a holder of the Series D Preferred Stock, desires to take any action which a holder is entitled to take under our charter (including the articles supplementary designating the Series D Preferred Stock), DTC would authorize the Direct Participants holding the relevant shares to take such action, and those Direct Participants and any Indirect Participants would authorize beneficial owners owning through those Direct and Indirect Participants to take such action or would otherwise act upon the instructions of beneficial owners owning through them.

Any redemption notices with respect to the Series D Preferred Stock will be sent to Cede & Co. If less than all of the outstanding shares of Series D Preferred Stock are being redeemed, DTC will reduce each Direct Participant’s holdings of shares of Series D Preferred Stock in accordance with its procedures.

In those instances where a vote is required, neither DTC nor Cede & Co. itself will consent or vote with respect to the shares of Series D Preferred Stock. Under its usual procedures, DTC would mail an omnibus proxy to us as soon as possible after the record date. The omnibus proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants whose accounts the shares of Series D Preferred Stock are credited to on the record date, which are identified in a listing attached to the omnibus proxy.

Dividends on the Series D Preferred Stock will be made directly to DTC's nominee (or its successor, if applicable). DTC's practice is to credit participants' accounts on the relevant payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on that payment date.

Payments by Direct and Indirect Participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name." These payments will be the responsibility of the participant and not of DTC, us or any agent of ours.

DTC may discontinue providing its services as securities depository with respect to the Series D Preferred Stock at any time by giving reasonable notice to us. Additionally, we may decide to discontinue the book-entry only system of transfers with respect to the Series D Preferred Stock. In that event, we will print and deliver certificates in fully registered form for the Series D Preferred Stock. If DTC notifies us that it is unwilling to continue as securities depository, or it is unable to continue or ceases to be a clearing agency registered under the Exchange Act and a successor depository is not appointed by us within 90 days after receiving such notice or becoming aware that DTC is no longer so registered, we will issue the Series D Preferred Stock in definitive form, at our expense, upon registration of transfer of, or in exchange for, such global security.

According to DTC, the foregoing information with respect to DTC has been provided to the financial community for informational purposes only and is not intended to serve as a representation, warranty or contract modification of any kind.

Global Clearance and Settlement Procedures

Secondary market trading among DTC's Participants will occur in the ordinary way in accordance with DTC's rules and will be settled in immediately available funds using DTC's Same-Day Funds Settlement System.

Description of the Series F Preferred Stock

The description of certain terms of the Series F Preferred Stock in this exhibit does not purport to be complete and is in all respects subject to, and qualified in its entirety by references to the relevant provisions of our charter, the articles supplementary for Series F Preferred Stock, our bylaws and Maryland law. In this section, (i) our “Junior Stock” means our common stock and any class or series of stock we may issue in the future that by its terms ranks junior to the Series F Preferred Stock with respect to the payment of dividends and the distribution of assets in the event of our liquidation, dissolution, or winding up, (ii) our “Parity Stock” means our Series D Preferred Stock, our Series G Preferred Stock, our Series I Preferred Stock, and any other class or series of stock issued by us from time to time that by its terms ranks on parity with the Series D Preferred Stock, Series F Preferred Stock, Series G Preferred Stock and Series I Preferred Stock with respect to the payment of dividends and the distribution of assets in the event of our liquidation, dissolution or winding up, and (iii) our “Senior Stock” means any class or series of stock we may issue in the future that by its terms ranks senior to the Series F Preferred Stock with respect to the payment of dividends and the distribution of assets in the event of our liquidation, dissolution or winding up. The term “stock” does not include any convertible or exchangeable debt securities we may issue in the future.

General

Pursuant to our charter, our Board and a committee of the Board classified and designated 28,800,000 shares of the Series F Preferred Stock. Our Board may, without the approval of holders of Series D Preferred Stock, Series F Preferred Stock, Series G Preferred Stock, Series I Preferred Stock or our common stock, designate additional classes or series of authorized preferred stock ranking junior to or on parity with the Series F Preferred Stock or designate additional shares of the Series F Preferred Stock and authorize the issuance of such shares.

Listing

Our Series F Preferred Stock is listed on the New York Stock Exchange under the symbol “NYL.F”.

Transfer Agent and Registrar

The registrar, transfer agent and dividend and redemption price disbursing agent in respect of the Series F Preferred Stock is Computershare Inc.

Maturity

The Series F Preferred Stock has no stated maturity and is not subject to any sinking fund or mandatory redemption. Shares of the Series F Preferred Stock will remain outstanding indefinitely unless we decide to redeem or otherwise repurchase them or they become convertible and are converted as described below under “—Conversion Rights.” We are not required to set apart for payment the funds to redeem the Series F Preferred Stock.

Ranking

The Series F Preferred Stock ranks, with respect to rights to the payment of dividends and the distribution of assets upon our liquidation, dissolution or winding up:

- senior to all classes or series of our common stock and any other Junior Stock we may issue;
- on a parity with our Parity Stock;
- junior to any Senior Stock we may issue; and
- effectively junior to all of our existing and future indebtedness (including indebtedness convertible into or exchangeable for our common stock or preferred stock) and the indebtedness of our existing and future subsidiaries.

Dividends

Holders of shares of the Series F Preferred Stock are entitled to receive, when, as and if authorized by our Board and declared by us, out of funds legally available for the payment of dividends, cumulative cash dividends. The initial dividend rate for the Series F Preferred Stock from and including the date of original issuance to, but not including, September 30, 2022 (the “Fixed Rate Period”) will be 6.95% of the \$25.00 per share liquidation preference per annum (equivalent to \$1.7375 per annum per share). On and after September 30, 2022 (the “Floating Rate Period”), dividends on the Series F Preferred Stock will accumulate at a percentage of the \$25.00 liquidation preference equal to an annual floating rate of the Three-Month LIBOR Rate plus a spread of 4.993%. Dividends on the Series F Preferred Stock will accumulate daily and be cumulative from, and including, the date of original issue and will be payable quarterly in arrears on the last day of each March, June, September and December (each, a “dividend payment date”); provided that if any dividend payment date is not a business day, as defined in the articles supplementary classifying and designating the Series F Preferred Stock, then the dividend which would otherwise have been payable on that dividend payment date may be paid on the next succeeding business day with the same force and effect as if paid on such dividend payment date. No interest, additional dividends or sums in lieu of interest will be payable for the period from and after that dividend payment date to that next succeeding business day. Any dividend payable on the Series F Preferred Stock, including dividends payable for any partial Dividend Period, will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends will be payable to holders of record as they appear on our stock records at the close of business on the applicable record date, which will be no fewer than ten days and no more than 35 days prior to the applicable dividend payment date, as shall be fixed by the board of directors (each, a “dividend record date”). The dividends payable on any dividend payment date shall include dividends accumulated to, but not including, such dividend payment date.

For each Dividend Period during the Floating Rate Period, LIBOR (the London interbank offered rate) (“Three-Month LIBOR Rate”) will be determined by us, as of the applicable Dividend Determination Date (as defined below), in accordance with the following provisions:

- LIBOR will be the rate (expressed as a percentage per year) for deposits in U.S. dollars having an index maturity of three months, in amounts of at least \$1,000,000, as such rate appears on “Reuters Page LIBOR01” at approximately 11:00 a.m. (London time) on the relevant Dividend Determination Date; or
- if no such rate appears on “Reuters Page LIBOR01” or if the “Reuters Page LIBOR01” is not available at approximately 11:00 a.m. (London time) on the relevant Dividend Determination Date, then we will select four nationally-recognized banks in the London interbank market and request that the principal London offices of those four selected banks provide us with their offered quotation for deposits in U.S. dollars for a period of three months, commencing on the first day of the applicable Dividend Period, to prime banks in the London interbank market at approximately 11:00 a.m. (London time) on that Dividend Determination Date for the applicable Dividend Period. Offered quotations must be based on a principal amount equal to an amount that, in our discretion, is representative of a single transaction in U.S. dollars in the London interbank market at that time. If at least two quotations are provided, the Three-Month LIBOR Rate for such Dividend Period will be the arithmetic mean (rounded upward if necessary, to the nearest 0.00001 of 1%) of those quotations. If fewer than two quotations are provided, the Three-Month LIBOR Rate for such Dividend Period will be the arithmetic mean (rounded upward if necessary, to the nearest 0.00001 of 1%) of the rates quoted at approximately 11:00 a.m. (New York City time) on that Dividend Determination Date for such Dividend Period by three nationally-recognized banks in New York, New York selected by us, for loans in U.S. dollars to nationally-recognized European banks (as selected by us), for a period of three months commencing on the first day of such Dividend Period. The rates quoted must be based on an amount that, in our discretion, is representative of a single transaction in U.S. dollars in that market at that time. If fewer than three New York City banks selected by us do not quote rates in the manner described above, the Three-Month LIBOR Rate for the applicable Dividend Period

will be the same as for the immediately preceding Dividend Period, or, if there was no such Dividend Period, the dividend shall be calculated at the dividend rate in effect for the immediately preceding Dividend Period.

“Dividend Determination Date” means the London Business Day (as defined below) immediately preceding the first date of the applicable Dividend Period.

“Dividend Period” means the period from, and including, a dividend payment date to, but excluding, the next succeeding dividend payment date, except for the initial Dividend Period, which will be the period from, and including, the original issue date of the Series F Preferred Stock to, but excluding, December 31, 2017.

“London Business Day” means any day on which dealings in deposits in U.S. dollars are transacted in the London interbank market.

“Reuters Page LIBOR01” means the display so designated on the Reuters 3000 Xtra (or such other page as may replace the LIBOR01 page on that service, or such other service as may be nominated by the ICE Benchmark Administration Limited, or ICE, or its successor, or such other entity assuming the responsibility of ICE or its successor in the event ICE or its successor no longer does so, as the successor service, for the purpose of displaying London interbank offered rates for U.S. dollar deposits).

No dividends on shares of Series F Preferred Stock may be authorized by our Board or paid or set apart for payment by us at any time when the terms and provisions of any agreement of ours, including any agreement relating to our indebtedness, prohibit the authorization, payment or setting apart for payment thereof or provide that the authorization, payment or setting apart for payment thereof would constitute a breach of the agreement or a default under the agreement, or if the authorization, payment or setting apart for payment is restricted or prohibited by law.

Notwithstanding the foregoing, dividends on the Series F Preferred Stock will accumulate whether or not (i) the terms and provisions of any laws or agreements referred to in the preceding paragraph at any time prohibit the current payment of dividends, (ii) we have earnings, (iii) there are funds legally available for the payment of those dividends and (iv) those dividends are declared. No interest, or sum in lieu of interest, will be payable in respect of any dividend payment or payments on the Series F Preferred Stock which may be in arrears, and holders of Series F Preferred Stock will not be entitled to any dividends in excess of full cumulative dividends described above. Any dividend payment made on the Series F Preferred Stock will first be credited against the earliest accumulated but unpaid dividend due with respect to those shares.

Future dividends on our common stock and preferred stock, including the Series F Preferred Stock, will be at the discretion of our Board and will depend on, among other things, our results of operations, cash flow from operations, financial condition and capital requirements, the annual distribution requirements under the REIT provisions of the Code, applicable law, any debt service requirements and any other factors our Board deems relevant. Accordingly, we cannot guarantee that we will be able to make cash distributions on the Series F Preferred Stock or what the actual dividends will be for any future period.

Except as noted below, unless full cumulative dividends on the Series F Preferred Stock have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for payment for all past Dividend Periods, no dividends (other than in shares of our common stock or other Junior Stock we may issue) may be declared or paid or set apart for payment upon our common stock or other Junior Stock or our Parity Stock and no other distribution may be declared or made upon our common stock or other Junior Stock or our Parity Stock. In addition, our common stock and other Junior Stock or Parity Stock we may issue may not be redeemed, purchased or otherwise acquired for any consideration (or any moneys be paid to or made available for a sinking fund for the redemption of any such securities) by us (except by conversion into or exchange for shares of, or options, warrants or rights to purchase or subscribe

for, our common stock or other Junior Stock we may issue or pursuant to an exchange offer made on the same terms to all holders of Series F Preferred Stock and all Parity Stock). The foregoing will not, however, prevent the redemption, purchase or acquisition by us of shares of any class or series of stock for the purpose of enforcing restrictions on transfer and ownership of our stock contained in our charter, including in order to preserve our qualification as a REIT, or the redemption, purchase or acquisition by us of shares of our common stock for purposes of and in compliance with any incentive or benefit plan of ours.

When dividends are not paid in full (or a sum sufficient for such full payment is not so set apart) upon the Series F Preferred Stock and our Parity Stock, all dividends declared upon the Series F Preferred Stock and such Parity Stock must be declared pro rata so that the amount of dividends declared per share of Series F Preferred Stock and such Parity Stock will in all cases bear to each other the same ratio that accumulated dividends per share on the Series F Preferred Stock and such Parity Stock (which will not include any accrual in respect of unpaid dividends for prior Dividend Periods if such other Parity Stock do not have a cumulative dividend) bear to each other. No interest, or sum of money in lieu of interest, will be payable in respect of any dividend payment or payments on the Series F Preferred Stock which may be in arrears.

Liquidation Preference

In the event of our voluntary or involuntary liquidation, dissolution or winding up, the holders of Series F Preferred Stock will be entitled to be paid out of the assets we have legally available for distribution to our stockholders, subject to the preferential rights of the holders of any Senior Stock, a liquidation preference of \$25.00 per share, plus any accumulated and unpaid dividends thereon (whether or not authorized or declared) to, but excluding, the payment date, before any distribution of assets is made to holders of common stock or other Junior Stock we may issue; and the holders of Series F Preferred Stock will not be entitled to any further payment.

In the event that, upon any such voluntary or involuntary liquidation, dissolution or winding up, our available assets are insufficient to pay the amount of the liquidating distributions on all outstanding shares of Series D Preferred Stock, Series F Preferred Stock, Series G Preferred Stock, Series I Preferred Stock and any other Parity Stock we may issue, then the holders of Series D Preferred Stock, Series F Preferred Stock, Series G Preferred Stock, Series I Preferred Stock and such other Parity Stock will share ratably in any such distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled.

Notice of any such liquidation stating the payment date or dates when, and the place or places where, the amounts distributable in each circumstance shall be payable, will be given no fewer than 30 days and no more than 60 days prior to the payment date, to each holder of record of Series F Preferred Stock at the address of such holder as it appears on our stock records. After payment of the full amount of the liquidating distributions to which they are entitled, the holders of Series F Preferred Stock will have no right or claim to any of our remaining assets. The consolidation, conversion or merger of us with or into any other corporation, trust or entity or of any other entity with or into us, the sale, lease, transfer or conveyance of all or substantially all of our property or business or a statutory share exchange, will not be deemed to constitute a liquidation, dissolution or winding up of us (although such events may give rise to the special optional redemption and contingent conversion rights described below).

In determining whether a distribution (other than upon voluntary or involuntary liquidation), by dividend, redemption or other acquisition of shares of stock or otherwise, is permitted under Maryland law with respect to any share of any class or series of our stock, amounts that would be needed, if we were to be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of holders of shares of Series F Preferred Stock will not be added to our total liabilities.

Redemption

The Series F Preferred Stock is not redeemable by us prior to September 30, 2022, except under circumstances where it is necessary to preserve our qualification as a REIT for U.S. federal income tax purposes (please see “Description of Equity Securities—Restrictions on Ownership and Transfer” in this exhibit) and except as described below under “—Special Optional Redemption” upon the occurrence of a Change of Control (as defined herein).

Optional Redemption. On and after September 30, 2022, we may, at our option, upon not less than 30 nor more than 60 days’ notice, redeem the Series F Preferred Stock, in whole or in part, at any time or from time to time, for cash at a redemption price of \$25.00 per share, plus any accumulated and unpaid dividends thereon (whether or not authorized or declared) to, but excluding, the redemption date, without interest.

Special Optional Redemption. Upon the occurrence of a Change of Control (as defined below), we may, at our option, upon not less than 30 nor more than 60 days’ notice, redeem the Series F Preferred Stock, in whole or in part, within 120 days after the first date on which such Change of Control occurred, for cash at a redemption price of \$25.00 per share, plus any accumulated and unpaid dividends thereon (whether or not authorized or declared) to, but excluding, the redemption date. If, prior to the Change of Control Conversion Date (as defined below), we have provided notice of our election to redeem some or all of the shares of Series F Preferred Stock (whether pursuant to our optional redemption right described above under “—Optional Redemption” or this special optional redemption right), the holders of Series F Preferred Stock will not have the Change of Control Conversion Right (as defined below) described below under “—Conversion Rights” with respect to the shares called for redemption.

A “Change of Control” is deemed to occur when, after the original issuance of the Series F Preferred Stock, the following have occurred and are continuing:

- the acquisition by any person, including any syndicate or group deemed to be a “person” under Section 13(d)(3) of the Exchange Act, of beneficial ownership, directly or indirectly, through a purchase, merger or other acquisition transaction or series of purchases, mergers or other acquisition transactions of our stock entitling that person to exercise more than 50% of the total voting power of all our stock entitled to vote generally in the election of our directors (except that such person will be deemed to have beneficial ownership of all securities that such person has the right to acquire, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition); and
- following the closing of any transaction referred to in the bullet point above, neither we nor the acquiring or surviving entity has a class of common securities (or American Depositary Receipts representing such securities) listed on the NYSE, the NYSE American LLC or the Nasdaq Stock Market, or listed or quoted on an exchange or quotation system that is a successor to the NYSE, the NYSE American LLC or the Nasdaq Stock Market.

Redemption Procedures. In the event we elect to redeem Series F Preferred Stock pursuant to our optional redemption right or our special optional redemption right, the notice of redemption will be given to each holder of record of Series F Preferred Stock called for redemption at such holder’s address as it appears on our stock records and will state the following:

- the redemption date;
- the number of shares of Series F Preferred Stock to be redeemed;
- the redemption price;
- the place or places where certificates (if any) for the Series F Preferred Stock are to be surrendered for payment of the redemption price;
- that dividends on the shares to be redeemed will cease to accumulate on the redemption date;

- if applicable, that such redemption is being made in connection with a Change of Control and, in that case, a brief description of the transaction or transactions constituting such Change of Control; and
- if such redemption is being made in connection with a Change of Control, that the holders of the shares of Series F Preferred Stock being so called for redemption will not be able to tender such shares of Series F Preferred Stock for conversion in connection with the Change of Control and that each share of Series F Preferred Stock tendered for conversion that is called, prior to the Change of Control Conversion Date, for redemption will be redeemed on the related date of redemption instead of converted on the Change of Control Conversion Date.

If less than all of the Series F Preferred Stock held by any holder is to be redeemed, the notice given to such holder shall also specify the number of shares of Series F Preferred Stock held by such holder to be redeemed. No failure to give such notice or any defect thereto or in the giving thereof will affect the validity of the proceedings for the redemption of any shares of Series F Preferred Stock, except as to the holder to whom notice was defective or not given.

Holders of shares of Series F Preferred Stock to be redeemed must surrender such shares at the place designated in the notice of redemption and will be entitled to the redemption price and any accumulated and unpaid dividends payable upon the redemption following the surrender.

If notice of redemption of any shares of Series F Preferred Stock has been given and if we have irrevocably set apart for payment the funds necessary for redemption (including any accumulated and unpaid dividends) in trust for the benefit of the holders of the shares of Series F Preferred Stock so called for redemption, then from and after the redemption date (unless we default in providing for the payment of the redemption price plus accumulated and unpaid dividends, if any), dividends will cease to accumulate on those shares of Series F Preferred Stock, those shares of Series F Preferred Stock will no longer be deemed outstanding and all rights of the holders of those shares will terminate, except the right to receive the redemption price plus accumulated and unpaid dividends, if any, payable upon redemption.

If any redemption date is not a business day, then the redemption price and accumulated and unpaid dividends, if any, payable upon redemption may be paid on the next business day and no interest, additional dividends or other sums will accumulate on the amount payable for the period from and after that redemption date to that next business day.

If less than all of the outstanding shares of Series F Preferred Stock are to be redeemed, the shares of Series F Preferred Stock to be redeemed will be selected pro rata (as nearly as may be practicable without creating fractional shares) or by lot. If such redemption is to be by lot and if, as a result of such redemption, any holder of Series F Preferred Stock would own, or be deemed by virtue of certain attribution provisions of the Code to own, in excess of 9.8% in value or in number of shares (whichever is more restrictive) of any class or series of our stock (including the Series F Preferred Stock), or violate any other restriction or limitation of our stock set forth in our charter, then, except as otherwise provided in our charter, we will redeem the requisite number of shares of Series F Preferred Stock of that holder such that the holder will not own or be deemed by virtue of certain attribution provisions of the Code to own, subsequent to the redemption, in excess of 9.8% in value or in number of shares (whichever is more restrictive) of any class or series of our stock or violate any other restriction or limitation of our stock set forth in our charter. See the heading “Description of Equity Securities—Restrictions on Ownership and Transfer” in this exhibit.

Immediately prior to any redemption of Series F Preferred Stock, we will pay, in cash, any accumulated and unpaid dividends to, but excluding, the redemption date, unless a redemption date falls after a dividend record date and prior to the corresponding dividend payment date, in which case each holder of Series F Preferred Stock at the close of business on such dividend record date will be entitled to the dividend payable on such shares on the corresponding dividend payment date notwithstanding the redemption of such shares before such dividend payment date. Except as provided above, we will make no payment or

allowance for unpaid dividends, whether or not in arrears, on shares of the Series F Preferred Stock to be redeemed.

Unless full cumulative dividends on all shares of Series F Preferred Stock have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof has been or contemporaneously is set apart for payment for all past Dividend Periods, no shares of Series F Preferred Stock may be redeemed unless all outstanding shares of Series F Preferred Stock are simultaneously redeemed, and we may not purchase or otherwise acquire directly or indirectly any shares of Series F Preferred Stock (except by conversion into or exchange for shares of, or options, warrants or rights to purchase or subscribe for, our common stock or other Junior Stock we may issue or pursuant to a purchase or exchange offer made on the same terms to all holders of Series F Preferred Stock and all Parity Stock); provided, however, that the foregoing will not prevent the redemption, purchase or acquisition by us of shares of Series F Preferred Stock for the purpose of enforcing restrictions on ownership and transfer of our stock contained in our charter, including in order to preserve our qualification as a REIT.

Subject to applicable law, we may purchase shares of Series F Preferred Stock in the open market, by tender or by privately negotiated transactions. Any shares of Series F Preferred Stock that we acquire, by redemption or otherwise, shall be reclassified as authorized but unissued shares of preferred stock, without designation as to class or series, and may thereafter be issued as any class or series of preferred stock.

Conversion Rights

Upon the occurrence of a Change of Control, each holder of Series F Preferred Stock will have the right (unless, prior to the Change of Control Conversion Date, we have provided notice of our election to redeem some or all of the shares of Series F Preferred Stock held by such holder as described above under “—Redemption,” in which case such holder will have the right only with respect to shares of Series F Preferred Stock that are not called for redemption) to convert some or all of the shares of the Series F Preferred Stock held by such holder (the “Change of Control Conversion Right”) on the Change of Control Conversion Date into a number of shares of our common stock per share of Series F Preferred Stock (the “Common Stock Conversion Consideration”) equal to the lesser of:

- the quotient obtained by dividing (i) the sum of the \$25.00 liquidation preference per share of Series F Preferred Stock, plus any accumulated and unpaid dividends thereon (whether or not authorized or declared) to, but excluding, the Change of Control Conversion Date (unless the Change of Control Conversion Date is after a dividend record date and prior to the corresponding dividend payment date for the Series F Preferred Stock, in which case no additional amount for such accumulated and unpaid dividends to be paid on such dividend payment date will be included in this sum) by (ii) the Common Stock Price, as defined below (such quotient, the “Conversion Rate”); and
- 4.19815, or the “Share Cap,” subject to certain adjustments as described below.

Notwithstanding anything in our charter to the contrary and except as otherwise required by law, the persons who are the holders of record of shares of Series F Preferred Stock at the close of business on a dividend record date will be entitled to receive the dividend payable on the corresponding dividend payment date notwithstanding the conversion of those shares after such dividend record date and on or prior to such dividend payment date and, in such case, the full amount of such dividend will be paid on such dividend payment date to the persons who were the holders of record at the close of business on such dividend record date. Except as provided in this paragraph, we will make no allowance for unpaid dividends that are not in arrears on the shares of Series F Preferred Stock to be converted.

The Share Cap is subject to pro rata adjustments for any share splits (including those effected pursuant to a distribution of our common stock to existing holders of our common stock), subdivisions or combinations (in each case, a “Share Split”) with respect to our common stock as follows: the adjusted Share Cap as the result of a Share Split will be the number of shares of our common stock that is equivalent to the product

obtained by multiplying (i) the Share Cap in effect immediately prior to such Share Split by (ii) a fraction, the numerator of which is the number of shares of our common stock outstanding immediately after giving effect to such Share Split and the denominator of which is the number of shares of our common stock outstanding immediately prior to such Share Split.

For the avoidance of doubt, subject to the immediately succeeding paragraph, the aggregate number of shares of our common stock (or equivalent Alternative Conversion Consideration, as applicable) issuable or deliverable, as applicable, in connection with the exercise of the Change of Control Conversion Right will not exceed the product of the Share Cap times the aggregate number of shares of the Series F Preferred Stock issued and outstanding at the Change of Control Conversion Date (or equivalent Alternative Conversion Consideration, as applicable) (the “Exchange Cap”). The Exchange Cap is subject to pro rata adjustments for any Share Splits on the same basis as the corresponding adjustment to the Share Cap.

In the case of a Change of Control pursuant to which our common stock is or will be converted into cash, securities or other property or assets (including any combination thereof) (the “Alternative Form Consideration”), a holder of Series F Preferred Stock will receive upon conversion of such shares of the Series F Preferred Stock the kind and amount of Alternative Form Consideration which such holder would have owned or been entitled to receive upon the Change of Control had such holder held a number of shares of our common stock equal to the Common Stock Conversion Consideration immediately prior to the effective time of the Change of Control (the “Alternative Conversion Consideration”). The Common Stock Conversion Consideration or the Alternative Conversion Consideration, whichever shall be applicable to a Change of Control, is referred to as the “Conversion Consideration.”

If the holders of our common stock have the opportunity to elect the form of consideration to be received in the Change of Control, the Conversion Consideration in respect of such Change of Control will be deemed to be the kind and amount of consideration actually received by holders of a majority of the outstanding shares of our common stock that made or voted for such an election (if electing between two types of consideration) or holders of a plurality of the outstanding shares of our common stock that made or voted for such an election (if electing between more than two types of consideration), as the case may be, and will be subject to any limitations to which all holders of our common stock are subject, including, without limitation, pro rata reductions applicable to any portion of the consideration payable in such Change of Control.

We will not issue fractional shares of our common stock upon the conversion of the Series F Preferred Stock in connection with a Change of Control. Instead, we will make a cash payment equal to the value of such fractional shares based upon the Common Stock Price used in determining the Common Stock Conversion Consideration for such Change of Control.

Within 15 days following the occurrence of a Change of Control, provided that we have not exercised our right to redeem all shares of Series F Preferred Stock pursuant to the redemption provisions described above, we will provide to holders of Series F Preferred Stock a notice of occurrence of the Change of Control that describes the resulting Change of Control Conversion Right, which notice shall be delivered to the holders of record of the shares of Series F Preferred Stock to their addresses as they appear on our stock records. No failure to give such notice or any defect thereto or in the giving thereof will affect the validity of the proceedings for the conversion of any shares of Series F Preferred Stock except as to the holder to whom notice was defective or not given. This notice will state the following:

- the events constituting the Change of Control;
- the date of the Change of Control;
- the last date on which the holders of Series F Preferred Stock may exercise their Change of Control Conversion Right;
- the method and period for calculating the Common Stock Price;
- the Change of Control Conversion Date;

- that if, prior to the Change of Control Conversion Date, we have provided notice of our election to redeem all or any shares of Series F Preferred Stock, holders of Series F Preferred Stock that are subject to such notice of redemption will not be able to convert the shares of Series F Preferred Stock called for redemption and such shares will be redeemed on the related redemption date, even if such shares have already been tendered for conversion pursuant to the Change of Control Conversion Right;
- if applicable, the type and amount of Alternative Conversion Consideration entitled to be received per share of Series F Preferred Stock;
- the name and address of the paying agent, transfer agent and conversion agent for the Series F Preferred Stock;
- the procedures that the holders of Series F Preferred Stock must follow to exercise the Change of Control Conversion Right (including procedures for surrendering shares of Series F Preferred Stock for conversion through the facilities of a Depositary (as defined below)), including the form of conversion notice to be delivered by such holders as described below; and
- the last date on which holders of Series F Preferred Stock may withdraw shares of Series F Preferred Stock surrendered for conversion and the procedures that such holders must follow to effect such a withdrawal.

Under such circumstances, we also will issue a press release containing such notice for publication on the Wall Street Journal, Business Wire, PR Newswire or Bloomberg Business News (or, if these organizations are not in existence at the time of issuance of the press release, such other news or press organization as is reasonably calculated to broadly disseminate the relevant information to the public), and post a notice on our website (if any), in any event prior to the opening of business on the first business day following any date on which we provide the notice described above to the holders of Series F Preferred Stock.

To exercise the Change of Control Conversion Right, the holders of Series F Preferred Stock will be required to deliver, on or before the close of business on the Change of Control Conversion Date, the certificates (if any) representing the shares of Series F Preferred Stock to be converted, duly endorsed for transfer (or, in the case of any shares of Series F Preferred Stock held in book-entry form through a Depositary or shares directly registered with the transfer agent therefor, to deliver, on or before the close of business on the Change of Control Conversion Date, the shares of Series F Preferred Stock to be converted through the facilities of such Depositary or through such transfer agent, respectively), together with a written conversion notice in the form provided by us, duly completed, to our transfer agent. The conversion notice must state:

- the relevant Change of Control Conversion Date;
- the number of shares of Series F Preferred Stock to be converted; and
- that the shares of the Series F Preferred Stock are to be converted pursuant to the applicable provisions of the articles supplementary designating the Series F Preferred Stock.

The “Change of Control Conversion Date” is the date the Series F Preferred Stock is to be converted, which will be a business day selected by us that is no fewer than 20 days nor more than 35 days after the date on which we provide the notice described above to the holders of Series F Preferred Stock.

The “Common Stock Price” is (i) if the consideration to be received in the Change of Control by the holders of our common stock is solely cash, the amount of cash consideration per share of our common stock or (ii) if the consideration to be received in the Change of Control by holders of our common stock is other than solely cash (x) the average of the closing sale prices per share of our common stock (or, if no closing sale price is reported, the average of the closing bid and ask prices per share or, if more than one in either case, the average of the average closing bid and the average closing ask prices per share) for the ten consecutive trading days immediately preceding, but not including, the date on which such Change of Control occurred as reported on the principal U.S. securities exchange on which our common stock is then traded, or (y) if our common stock is not then listed for trading on a U.S. securities exchange, the average of the last quoted bid prices for our common stock in the over-the-counter market as reported by OTC Markets

Group Inc. or similar organization for the ten consecutive trading days immediately preceding, but not including, the date on which such Change of Control occurred.

Holders of Series F Preferred Stock may withdraw any notice of exercise of a Change of Control Conversion Right (in whole or in part) by a written notice of withdrawal delivered to our transfer agent prior to the close of business on the business day prior to the Change of Control Conversion Date. The notice of withdrawal delivered by any holder must state:

- the number of withdrawn shares of Series F Preferred Stock;
- if certificated shares of Series F Preferred Stock have been surrendered for conversion, the certificate numbers of the withdrawn shares of Series F Preferred Stock; and
- the number of shares of Series F Preferred Stock, if any, which remain subject to the holder's conversion notice.

Notwithstanding the foregoing, if any shares of Series F Preferred Stock are held in book-entry form through The Depository Trust Company ("DTC") or a similar depository (each, a "Depository"), the conversion notice and/or the notice of withdrawal, as applicable, must comply with applicable procedures, if any, of the applicable Depository.

Shares of Series F Preferred Stock as to which the Change of Control Conversion Right has been properly exercised and for which the conversion notice has not been properly withdrawn will be converted into the applicable Conversion Consideration in accordance with the Change of Control Conversion Right on the Change of Control Conversion Date, unless prior to the Change of Control Conversion Date we have provided notice of our election to redeem some or all of the shares of Series F Preferred Stock, as described above under "—Redemption," in which case only the shares of Series F Preferred Stock properly surrendered for conversion and not properly withdrawn that are not called for redemption will be converted as aforesaid. If we elect to redeem shares of Series F Preferred Stock that would otherwise be converted into the applicable Conversion Consideration on a Change of Control Conversion Date, such shares of Series F Preferred Stock will not be so converted and the holders of such shares will be entitled to receive on the applicable redemption date the redemption price described above under "—Redemption."

We will deliver all securities, cash and any other property owing upon conversion no later than the third business day following the Change of Control Conversion Date. Notwithstanding the foregoing, the persons entitled to receive any shares of our common stock or other securities delivered on conversion will be deemed to have become the holders of record thereof as of the Change of Control Conversion Date.

In connection with the exercise of any Change of Control Conversion Right, we will comply with all applicable federal and state securities laws and stock exchange rules in connection with any conversion of shares of the Series F Preferred Stock into shares of our common stock or other property. Notwithstanding any other provision of the Series F Preferred Stock, no holder of Series F Preferred Stock will be entitled to convert such shares of the Series F Preferred Stock into shares of our common stock to the extent that receipt of such shares of common stock would cause such holder (or any other person) to violate the applicable restrictions on transfer and ownership of our stock contained in our charter, unless we provide an exemption from this limitation to such holder pursuant to the terms of our charter. Please see the section entitled "Description of Equity Securities—Restrictions on Ownership and Transfer" in this exhibit.

The Change of Control conversion feature may make it more difficult for a third party to acquire us or discourage a party from acquiring us.

Except as provided above in connection with a Change of Control, the Series F Preferred Stock is not convertible into or exchangeable for any other securities or property.

Voting Rights

Holders of Series F Preferred Stock do not have any voting rights, except as set forth below.

Whenever dividends on any shares of Series F Preferred Stock are in arrears for six or more full quarterly Dividend Periods, whether or not consecutive, the number of directors constituting our Board will be automatically increased by two (if not already increased by two by reason of the election of directors by the holders of any other class or series of Parity Stock upon which like voting rights have been conferred and are exercisable) and the holders of Series F Preferred Stock, voting as a single class with holders of the Parity Stock upon which like voting rights have been conferred and are exercisable, will be entitled to vote for the election of those two additional directors at a special meeting called by us at the request of the holders of record of at least 25% of the outstanding shares of Series F Preferred Stock and all other classes or series of Parity Stock upon which like voting rights have been conferred and are exercisable to be held no later than 90 days after our receipt of such request (unless the request is received less than 90 days before the date fixed for the next annual or special meeting of our stockholders, in which case, such vote will be held at the earlier of the next annual or special meeting of the stockholders to the extent permitted by applicable law), and at each subsequent annual meeting until all dividends accumulated on the Series F Preferred Stock for all past Dividend Periods and the then current Dividend Period will have been fully paid. In that case, the right of holders of Series F Preferred Stock to elect any directors will cease and, unless there are other classes or series of Parity Stock upon which like voting rights have been conferred and are exercisable, the term of office of any directors elected by holders of Series F Preferred Stock will immediately terminate and the number of directors constituting the board of directors will be reduced accordingly. For the avoidance of doubt, in no event will the total number of directors elected by holders of Series F Preferred Stock (voting together as a single class with the Parity Stock upon which like voting rights have been conferred and are exercisable) pursuant to these voting rights exceed two. The directors elected by the holders of the Series F Preferred Stock and the holders of the Parity Stock upon which like voting rights have been conferred and are exercisable will be elected by a plurality of the votes cast by the holders of the outstanding shares of Series F Preferred Stock when they have the voting rights described in this paragraph and the Parity Stock upon which like voting rights have been conferred and are exercisable (voting together as a single class) to serve until our next annual meeting of stockholders and until their successors are duly elected and qualify or until such directors' right to hold the office terminates as described above, whichever occurs earlier.

On each matter on which holders of Series F Preferred Stock are entitled to vote, each share of Series F Preferred Stock will be entitled to one vote, except that when shares of any other class or series of preferred stock we may issue, including the Parity Stock, have the right to vote with the Series F Preferred Stock as a single class on any matter, the Series F Preferred Stock, the Parity Stock and each such other class or series of stock will have one vote for each \$25.00 of liquidation preference (excluding accumulated dividends). If, at any time when the voting rights conferred upon the Series F Preferred Stock are exercisable, any vacancy in the office of a director elected by the holders of the Parity Stock upon which like voting rights have been conferred and are exercisable will occur, then such vacancy may be filled only by the remaining director or by vote of the holders of the outstanding Series F Preferred Stock and any other classes or series of Parity Stock upon which like voting rights have been conferred and are exercisable.

Any director elected by holders of shares of Series F Preferred Stock and any class or series of Parity Stock upon which like voting rights have been conferred and are exercisable may be removed at any time, with or without cause, by the vote of, and may not be removed otherwise than by the vote of, the holders of record of a majority of the outstanding shares of Series F Preferred Stock and any class or series of Parity Stock we may issue when they have the voting rights described above (voting as a single class with all other classes or series of Parity Stock upon which like voting rights have been conferred and are exercisable).

So long as any shares of Series F Preferred Stock remain outstanding, we will not, without the affirmative vote or consent of the holders of at least two-thirds of the shares of Series F Preferred Stock, and Parity Stock upon which like voting rights have been conferred and are exercisable (voting together as a single class), (i) authorize, create, or increase the authorized or issued amount of, any class or series of Senior

Stock or reclassify any of our authorized stock into such shares, or create or authorize or issue any obligation or security convertible into or evidencing the right to purchase any such shares or (ii) amend, alter or repeal the provisions of our charter, whether by merger, conversion, consolidation or otherwise, so as to materially and adversely affect any right, preference, privilege or voting power of the Series F Preferred Stock (each, an “Event”); provided, however, with respect to the occurrence of any Event set forth in clause (ii) above, so long as the Series F Preferred Stock remains outstanding with the terms thereof materially unchanged, or the holders of Series F Preferred Stock receive shares of stock or other equity interests with rights, preferences, privileges and voting powers substantially the same as those of the Series F Preferred Stock, taking into account that upon the occurrence of an Event we may not be the successor entity, the occurrence of any such Event will not be deemed to materially and adversely affect the rights, preferences, privileges or voting power of holders of Series F Preferred Stock; and, provided further, that any increase in the amount of the authorized or issued Series F Preferred Stock or the creation or issuance, or any increase in the amounts authorized of any Parity Stock, including the Series D Preferred Stock, Series G Preferred Stock, Series I Preferred Stock, or Junior Stock will not be deemed to materially and adversely affect the rights, preferences, privileges or voting powers of holders of Series F Preferred Stock. Notwithstanding the foregoing, if any amendment, alteration or repeal of any provision of our charter would materially and adversely affect the rights, preferences, privileges or voting rights of the Series F Preferred Stock disproportionately relative to other classes or series of Parity Stock, including the Series D Preferred Stock, Series G Preferred Stock and Series I Preferred Stock, then the affirmative vote or consent of the holders of at least two-thirds of the outstanding shares of Series F Preferred Stock (voting as a separate class) shall also be required.

The foregoing voting provisions will not apply if, at or prior to the time when the act with respect to which such vote would otherwise be required shall be effected, all outstanding shares of Series F Preferred Stock have been redeemed or called for redemption upon proper notice and sufficient funds have been irrevocably set apart to effect such redemption.

Except as expressly stated in our charter or as may be required by applicable law, the Series F Preferred Stock do not have any relative, participating, optional or other special voting rights or powers and the consent of the holders thereof will not be required for the taking of any corporate action. The holders of Series F Preferred Stock have exclusive voting rights on any amendment to our charter that would alter the contract rights, as expressly set forth in the charter, of only the Series F Preferred Stock.

Information Rights

During any period in which we are not subject to Section 13 or 15(d) of the Exchange Act and any shares of Series F Preferred Stock are outstanding, we will use our best efforts to (i) transmit through our website at <http://www.annaly.com> (or other permissible means under the Exchange Act) copies of the Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q that we would have been required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act if we were subject thereto (other than any exhibits that would have been required). We will use our best efforts to provide such reports on our website within 15 days after the respective dates by which we would have been required to file such reports with the SEC if we were subject to Section 13 or 15(d) of the Exchange Act and we were a “non-accelerated filer” within the meaning of the Exchange Act.

Restrictions on Transfer and Ownership

To assist us in qualifying as a REIT, our charter prohibits anyone from acquiring or holding, directly or constructively, ownership of 9.8%, in number of shares or value, of each class or series of our outstanding shares. For this purpose the term “ownership” generally means either direct ownership or constructive ownership in accordance with the constructive ownership provisions of Section 544 of the Code, as modified in Section 856(h) of the Code. These provisions may restrict the ability of a holder of Series F Preferred Stock to convert such stock into our common stock as described above under “—Conversion Rights.” Our board of directors may, in its sole discretion, exempt a person from the 9.8% ownership limit under certain

circumstances as described under “Description of Equity Securities—Restrictions on Ownership and Transfer” in this exhibit.

For further information regarding restrictions on ownership and transfer of the Series F Preferred Stock, please see the section entitled “Description of Equity Securities—Restrictions on Ownership and Transfer” in this exhibit.

Preemptive Rights

No holders of Series F Preferred Stock, as holders of Series F Preferred Stock, have any preemptive rights to purchase or subscribe for our common stock or any of our other securities.

Book-Entry Procedures

DTC acts as securities depository for the Series F Preferred Stock, which were issued in the form of global securities held in book-entry form. We will not issue certificates to holders of the Series F Preferred Stock for the shares of Series F Preferred Stock that are purchased, unless DTC’s services are discontinued as described below.

Title to book-entry interests in the Series F Preferred Stock will pass by book-entry registration of the transfer within the records of DTC in accordance with its procedures. Book-entry interests in the securities may be transferred within DTC in accordance with procedures established for these purposes by DTC. Each person owning a beneficial interest in shares of the Series F Preferred Stock must rely on the procedures of DTC and the participant through which such person owns its interest to exercise its rights as a holder of the Series F Preferred Stock.

DTC has advised us that it is a limited-purpose trust company organized under the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered under the provisions of Section 17A of the Exchange Act. DTC holds securities that its participants (“Direct Participants”) deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. Access to the DTC system is also available to others such as securities brokers and dealers, including the underwriters, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The rules applicable to DTC and its Direct and Indirect Participants are on file with the SEC.

When shares of Series F Preferred Stock are purchased within the DTC system, the purchase must be by or through a Direct Participant. The Direct Participant will receive a credit for the Series F Preferred Stock on DTC’s records. Holders of the Series F Preferred Stock will be considered to be the “beneficial owner” of the Series F Preferred Stock. Such beneficial ownership interest will be recorded on the Direct and Indirect Participants’ records, but DTC will have no knowledge of individual ownership. DTC’s records reflect only the identity of the Direct Participants to whose accounts shares of Series F Preferred Stock are credited.

Holders of the Series F Preferred Stock will not receive written confirmation from DTC of the purchase. The Direct or Indirect Participants through whom the Series F Preferred Stock were purchased should send such holders written confirmations providing details of the transactions, as well as periodic statements of the holdings. The Direct and Indirect Participants are responsible for keeping an accurate account of the holdings of their customers.

Transfers of ownership interests held through Direct and Indirect Participants will be accomplished by entries on the books of Direct and Indirect Participants acting on behalf of the beneficial owners.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

We understand that, under DTC's existing practices, in the event that we request any action of the holders, or an owner of a beneficial interest in a global security, such as a holder of the Series F Preferred Stock, desires to take any action which a holder is entitled to take under our charter (including the articles supplementary designating the Series F Preferred Stock), DTC would authorize the Direct Participants holding the relevant shares to take such action, and those Direct Participants and any Indirect Participants would authorize beneficial owners owning through those Direct and Indirect Participants to take such action or would otherwise act upon the instructions of beneficial owners owning through them.

Any redemption notices with respect to the Series F Preferred Stock will be sent to Cede & Co. If less than all of the outstanding shares of Series F Preferred Stock are being redeemed, DTC will reduce each Direct Participant's holdings of shares of Series F Preferred Stock in accordance with its procedures.

In those instances where a vote is required, neither DTC nor Cede & Co. itself will consent or vote with respect to the shares of Series F Preferred Stock. Under its usual procedures, DTC would mail an omnibus proxy to us as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants whose accounts the shares of Series F Preferred Stock are credited to on the record date, which are identified in a listing attached to the omnibus proxy.

Dividends on the Series F Preferred Stock will be made directly to DTC's nominee (or its successor, if applicable). DTC's practice is to credit participants' accounts on the relevant payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on that payment date.

Payments by Direct and Indirect Participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name." These payments will be the responsibility of the participant and not of DTC, us or any agent of ours.

DTC may discontinue providing its services as securities depository with respect to the Series F Preferred Stock at any time by giving reasonable notice to us. Additionally, we may decide to discontinue the book-entry only system of transfers with respect to the Series F Preferred Stock. In that event, we will print and deliver certificates in fully registered form for the Series F Preferred Stock. If DTC notifies us that it is unwilling to continue as securities depository, or it is unable to continue or ceases to be a clearing agency registered under the Exchange Act and a successor depository is not appointed by us within 90 days after receiving such notice or becoming aware that DTC is no longer so registered, we will issue the Series F Preferred Stock in definitive form, at our expense, upon registration of transfer of, or in exchange for, such global security.

According to DTC, the foregoing information with respect to DTC has been provided to the financial community for informational purposes only and is not intended to serve as a representation, warranty or contract modification of any kind.

Global Clearance and Settlement Procedures

Secondary market trading among DTC's Participants will occur in the ordinary way in accordance with DTC's rules and will be settled in immediately available funds using DTC's Same-Day Funds Settlement System.

Description of the Series G Preferred Stock

The description of certain terms of the Series G Preferred Stock in this exhibit does not purport to be complete and is in all respects subject to, and qualified in its entirety by references to the relevant provisions of our charter, the articles supplementary for Series G Preferred Stock, our bylaws and Maryland law. In this section, (i) our “Junior Stock” means our common stock and any class or series of stock we may issue in the future that by its terms ranks junior to the Series G Preferred Stock with respect to the payment of dividends and the distribution of assets in the event of our liquidation, dissolution, or winding up, (ii) our “Parity Stock” means our Series D Preferred Stock, our Series F Preferred Stock, our Series I Preferred Stock, and any other class or series of stock issued by us from time to time that by its terms ranks on parity with the Series D Preferred Stock, Series F Preferred Stock, Series G Preferred Stock and Series I Preferred Stock with respect to the payment of dividends and the distribution of assets in the event of our liquidation, dissolution or winding up, and (iii) our “Senior Stock” means any class or series of stock we may issue in the future that by its terms ranks senior to the Series G Preferred Stock with respect to the payment of dividends and the distribution of assets in the event of our liquidation, dissolution or winding up. The term “stock” does not include any convertible or exchangeable debt securities we may issue in the future.

General

Pursuant to our charter, our Board and a committee of the Board classified and designated 19,550,000 shares of the Series G Preferred Stock. Our Board may, without the approval of holders of Series D Preferred Stock, Series F Preferred Stock, Series G Preferred Stock, Series I Preferred Stock or our common stock, designate additional classes or series of authorized preferred stock ranking junior to or on parity with the Series G Preferred Stock or designate additional shares of the Series G Preferred Stock and authorize the issuance of such shares.

Listing

Our Series G Preferred Stock is listed on the New York Stock Exchange under the symbol “NYL.G”.

Transfer Agent and Registrar

The registrar, transfer agent and dividend and redemption price disbursing agent in respect of the Series G Preferred Stock is Computershare Inc.

Maturity

The Series G Preferred Stock has no stated maturity and is not subject to any sinking fund or mandatory redemption. Shares of the Series G Preferred Stock will remain outstanding indefinitely unless we decide to redeem or otherwise repurchase them or they become convertible and are converted as described below under “—Conversion Rights.” We are not required to set apart for payment the funds to redeem the Series G Preferred Stock.

Ranking

The Series G Preferred Stock ranks, with respect to rights to the payment of dividends and the distribution of assets upon our liquidation, dissolution or winding up:

- senior to all classes or series of our common stock and any other Junior Stock we may issue;
- on a parity with our Parity Stock;
- junior to any Senior Stock we may issue; and

- effectively junior to all of our existing and future indebtedness (including indebtedness convertible into or exchangeable for our common stock or preferred stock) and the indebtedness of our existing and future subsidiaries.

Dividends

Holders of shares of the Series G Preferred Stock are entitled to receive, when, as and if authorized by our Board and declared by us, out of funds legally available for the payment of dividends, cumulative cash dividends. The initial dividend rate for the Series G Preferred Stock from and including the date of original issuance to, but not including, March 31, 2023 (the “Fixed Rate Period”) will be 6.50% of the \$25.00 per share liquidation preference per annum (equivalent to \$1.625 per annum per share). On and after March 31, 2023 (the “Floating Rate Period”), dividends on the Series G Preferred Stock will accumulate at a percentage of the \$25.00 liquidation preference equal to an annual floating rate of the Three-Month LIBOR Rate plus a spread of 4.172%. Dividends on the Series G Preferred Stock will accumulate daily and be cumulative from, and including, the date of original issue and will be payable quarterly in arrears on the last day of each March, June, September and December (each, as may be modified as provided below, a “dividend payment date”). If any dividend payment date up to and including the scheduled March 31, 2023 dividend payment date is not a business day, as defined in the articles supplementary classifying and designating the Series G Preferred Stock, then the dividend which would otherwise have been payable on that dividend payment date may be paid on the next succeeding business day with the same force and effect as if paid on such dividend payment date, and no interest, additional dividends or sums in lieu of interest will be payable for the period from and after that dividend payment date to that next succeeding business day. If any dividend payment date thereafter is not a business day, then the dividend payment date will be postponed to the next succeeding business day, unless that day falls in the next calendar month, in which case the dividend payment date will be brought forward to the immediately preceding day that is a business day, and, in either case, dividends will accrue to, but excluding, the actual payment day. Dividends payable on the Series G Preferred Stock for the Fixed Rate Period will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends payable on the Series G Preferred Stock for the Floating Rate Period will be computed based on the actual number of days in a Dividend Period and a 360-day year. Dividends will be payable to holders of record as they appear on our stock records at the close of business on the applicable record date, which will be no fewer than ten days and no more than 35 days prior to the applicable dividend payment date, as shall be fixed by the board of directors (each, a “dividend record date”). The dividends payable on any dividend payment date shall include dividends accumulated to, but not including, such dividend payment date.

For each Dividend Period during the Floating Rate Period, LIBOR (the London interbank offered rate) (“Three-Month LIBOR Rate”) will be determined by us, as of the applicable Dividend Determination Date (as defined below), in accordance with the following provisions:

- LIBOR will be the rate (expressed as a percentage per year) for deposits in U.S. dollars having an index maturity of three months, in amounts of at least \$1,000,000, as such rate appears on “Reuters Page LIBOR01” at approximately 11:00 a.m. (London time) on the relevant Dividend Determination Date; or
- if no such rate appears on “Reuters Page LIBOR01” or if the “Reuters Page LIBOR01” is not available at approximately 11:00 a.m. (London time) on the relevant Dividend Determination Date, then we will select four nationally-recognized banks in the London interbank market and request that the principal London offices of those four selected banks provide us with their offered quotation for deposits in U.S. dollars for a period of three months, commencing on the first day of the applicable Dividend Period, to prime banks in the London interbank market at approximately 11:00 a.m. (London time) on that Dividend Determination Date for the applicable Dividend Period. Offered quotations must be based on a principal amount equal to an amount that, in our discretion, is representative of a single transaction in U.S. dollars in the London interbank market at that time. If at least two quotations are provided, the Three-Month LIBOR Rate for such Dividend Period will be the arithmetic mean (rounded upward if necessary, to the

nearest 0.00001 of 1%) of those quotations. If fewer than two quotations are provided, the Three-Month LIBOR Rate for such Dividend Period will be the arithmetic mean (rounded upward if necessary, to the nearest 0.00001 of 1%) of the rates quoted at approximately 11:00 a.m. (New York City time) on that Dividend Determination Date for such Dividend Period by three nationally-recognized banks in New York, New York selected by us, for loans in U.S. dollars to nationally-recognized European banks (as selected by us), for a period of three months commencing on the first day of such Dividend Period. The rates quoted must be based on an amount that, in our discretion, is representative of a single transaction in U.S. dollars in that market at that time. If no quotation is provided as described above, then if a Calculation Agent (as defined below) has not been appointed at such time, we will appoint a Calculation Agent who shall, after consulting such sources as it deems comparable to any of the foregoing quotations or display page, or any such source as it deems reasonable from which to estimate LIBOR or any of the foregoing lending rates, shall determine LIBOR for the second London Business Day immediately preceding the first day of such distribution period in its sole discretion. If the Calculation Agent is unable or unwilling to determine LIBOR as provided in the immediately preceding sentence, then LIBOR will be equal to Three-Month LIBOR for the then current Dividend Period, or, in the case of the first Dividend Period in the Floating Rate Period, the most recent dividend rate that would have been determined based on the last available Reuters Page LIBOR01 had the Floating Rate Period been applicable prior to the first Dividend Period in the Floating Rate Period.

Notwithstanding the foregoing, if we determine on the relevant Dividend Determination Date that the LIBOR base rate has been discontinued, then we will appoint a Calculation Agent and the Calculation Agent will consult with an investment bank of national standing to determine whether there is an industry accepted substitute or successor base rate to Three-Month LIBOR Rate. If, after such consultation, the Calculation Agent determines that there is an industry accepted substitute or successor base rate, the Calculation Agent shall use such substitute or successor base rate. In such case, the Calculation Agent in its sole discretion may (without implying a corresponding obligation to do so) also implement changes to the business day convention, the definition of business day, the Dividend Determination Date and any method for obtaining the substitute or successor base rate if such rate is unavailable on the relevant Business Day, in a manner that is consistent with industry accepted practices for such substitute or successor base rate. Unless the Calculation Agent determines that there is an industry accepted substitute or successor base rate as so provided above, the Calculation Agent will, in consultation with us, follow the steps specified in the second bullet point in the immediately preceding paragraph in order to determine Three-Month LIBOR Rate for the applicable Dividend Period.

“Calculation Agent” shall mean a third party independent financial institution of national standing with experience providing such services, which has been selected by us.

“Dividend Determination Date” means the London Business Day (as defined below) immediately preceding the first date of the applicable Dividend Period.

“Dividend Period” means the period from, and including, a dividend payment date to, but excluding, the next succeeding dividend payment date, except for the initial Dividend Period, which will be the period from, and including, the original issue date of the Series G Preferred Stock to, but excluding, March 31, 2018.

“London Business Day” means any day on which dealings in deposits in U.S. dollars are transacted in the London interbank market.

“Reuters Page LIBOR01” means the display so designated on the Reuters 3000 Xtra (or such other page as may replace the LIBOR01 page on that service, or such other service as may be nominated by the ICE Benchmark Administration Limited, or ICE, or its successor, or such other entity assuming the

responsibility of ICE or its successor in the event ICE or its successor no longer does so, as the successor service, for the purpose of displaying London interbank offered rates for U.S. dollar deposits).

No dividends on shares of Series G Preferred Stock may be authorized by our Board or paid or set apart for payment by us at any time when the terms and provisions of any agreement of ours, including any agreement relating to our indebtedness, prohibit the authorization, payment or setting apart for payment thereof or provide that the authorization, payment or setting apart for payment thereof would constitute a breach of the agreement or a default under the agreement, or if the authorization, payment or setting apart for payment is restricted or prohibited by law.

Notwithstanding the foregoing, dividends on the Series G Preferred Stock will accumulate whether or not (i) the terms and provisions of any laws or agreements referred to in the preceding paragraph at any time prohibit the current payment of dividends, (ii) we have earnings, (iii) there are funds legally available for the payment of those dividends and (iv) those dividends are declared. No interest, or sum in lieu of interest, will be payable in respect of any dividend payment or payments on the Series G Preferred Stock which may be in arrears, and holders of Series G Preferred Stock will not be entitled to any dividends in excess of full cumulative dividends described above. Any dividend payment made on the Series G Preferred Stock will first be credited against the earliest accumulated but unpaid dividend due with respect to those shares.

Future dividends on our common stock and preferred stock, including the Series G Preferred Stock, will be at the discretion of our Board and will depend on, among other things, our results of operations, cash flow from operations, financial condition and capital requirements, the annual distribution requirements under the REIT provisions of the Code, applicable law, any debt service requirements and any other factors our Board deems relevant. Accordingly, we cannot guarantee that we will be able to make cash distributions on the Series G Preferred Stock or what the actual dividends will be for any future period.

Except as noted below, unless full cumulative dividends on the Series G Preferred Stock have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for payment for all past Dividend Periods, no dividends (other than in shares of our common stock or other Junior Stock we may issue) may be declared or paid or set apart for payment upon our common stock or other Junior Stock or our Parity Stock and no other distribution may be declared or made upon our common stock or other Junior Stock or our Parity Stock. In addition, our common stock and other Junior Stock or Parity Stock we may issue may not be redeemed, purchased or otherwise acquired for any consideration (or any moneys be paid to or made available for a sinking fund for the redemption of any such securities) by us (except by conversion into or exchange for shares of, or options, warrants or rights to purchase or subscribe for, our common stock or other Junior Stock we may issue or pursuant to an exchange offer made on the same terms to all holders of Series G Preferred Stock and all Parity Stock). The foregoing will not, however, prevent the redemption, purchase or acquisition by us of shares of any class or series of stock for the purpose of enforcing restrictions on transfer and ownership of our stock contained in our charter, including in order to preserve our qualification as a REIT, or the redemption, purchase or acquisition by us of shares of our common stock for purposes of and in compliance with any incentive or benefit plan of ours.

When dividends are not paid in full (or a sum sufficient for such full payment is not so set apart) upon the Series G Preferred Stock and our Parity Stock, all dividends declared upon the Series G Preferred Stock and such Parity Stock must be declared pro rata so that the amount of dividends declared per share of Series G Preferred Stock and such Parity Stock will in all cases bear to each other the same ratio that accumulated dividends per share on the Series G Preferred Stock and such Parity Stock (which will not include any accrual in respect of unpaid dividends for prior Dividend Periods if such other Parity Stock do not have a cumulative dividend) bear to each other. No interest, or sum of money in lieu of interest, will be payable in respect of any dividend payment or payments on the Series G Preferred Stock which may be in arrears.

Liquidation Preference

In the event of our voluntary or involuntary liquidation, dissolution or winding up, the holders of Series G Preferred Stock will be entitled to be paid out of the assets we have legally available for distribution to our stockholders, subject to the preferential rights of the holders of any Senior Stock, a liquidation preference of \$25.00 per share, plus any accumulated and unpaid dividends thereon (whether or not authorized or declared) to, but excluding, the payment date, before any distribution of assets is made to holders of common stock or other Junior Stock we may issue; and the holders of Series G Preferred Stock will not be entitled to any further payment.

In the event that, upon any such voluntary or involuntary liquidation, dissolution or winding up, our available assets are insufficient to pay the amount of the liquidating distributions on all outstanding shares of Series D Preferred Stock, Series F Preferred Stock, Series G Preferred Stock, Series I Preferred Stock and any other Parity Stock we may issue, then the holders of Series D Preferred Stock, Series F Preferred Stock, Series G Preferred Stock, Series I Preferred Stock and such other Parity Stock will share ratably in any such distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled.

Notice of any such liquidation stating the payment date or dates when, and the place or places where, the amounts distributable in each circumstance shall be payable, will be given no fewer than 30 days and no more than 60 days prior to the payment date, to each holder of record of Series G Preferred Stock at the address of such holder as it appears on our stock records. After payment of the full amount of the liquidating distributions to which they are entitled, the holders of Series G Preferred Stock will have no right or claim to any of our remaining assets. The consolidation, conversion or merger of us with or into any other corporation, trust or entity or of any other entity with or into us, the sale, lease, transfer or conveyance of all or substantially all of our property or business or a statutory share exchange, will not be deemed to constitute a liquidation, dissolution or winding up of us (although such events may give rise to the special optional redemption and contingent conversion rights described below).

In determining whether a distribution (other than upon voluntary or involuntary liquidation), by dividend, redemption or other acquisition of shares of stock or otherwise, is permitted under Maryland law with respect to any share of any class or series of our stock, amounts that would be needed, if we were to be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of holders of shares of Series G Preferred Stock will not be added to our total liabilities.

Redemption

The Series G Preferred Stock is not redeemable by us prior to March 31, 2023, except under circumstances where it is necessary to preserve our qualification as a REIT for U.S. federal income tax purposes (please see “Description of Equity Securities—Restrictions on Ownership and Transfer” in this exhibit) and except as described below under “—Special Optional Redemption” upon the occurrence of a Change of Control (as defined herein).

Optional Redemption. On and after March 31, 2023, we may, at our option, upon not less than 30 nor more than 60 days’ notice, redeem the Series G Preferred Stock, in whole or in part, at any time or from time to time, for cash at a redemption price of \$25.00 per share, plus any accumulated and unpaid dividends thereon (whether or not authorized or declared) to, but excluding, the redemption date, without interest.

Special Optional Redemption. Upon the occurrence of a Change of Control (as defined below), we may, at our option, upon not less than 30 nor more than 60 days’ notice, redeem the Series G Preferred Stock, in whole or in part, within 120 days after the first date on which such Change of Control occurred, for cash at a redemption price of \$25.00 per share, plus any accumulated and unpaid dividends thereon (whether or not authorized or declared) to, but excluding, the redemption date. If, prior to the Change of Control Conversion Date (as defined below), we have provided notice of our election to redeem some or all of the

shares of Series G Preferred Stock (whether pursuant to our optional redemption right described above under “—Optional Redemption” or this special optional redemption right), the holders of Series G Preferred Stock will not have the Change of Control Conversion Right (as defined below) described below under “—Conversion Rights” with respect to the shares called for redemption.

A “Change of Control” is deemed to occur when, after the original issuance of the Series G Preferred Stock, the following have occurred and are continuing:

- the acquisition by any person, including any syndicate or group deemed to be a “person” under Section 13(d)(3) of the Exchange Act, of beneficial ownership, directly or indirectly, through a purchase, merger or other acquisition transaction or series of purchases, mergers or other acquisition transactions of our stock entitling that person to exercise more than 50% of the total voting power of all our stock entitled to vote generally in the election of our directors (except that such person will be deemed to have beneficial ownership of all securities that such person has the right to acquire, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition); and
- following the closing of any transaction referred to in the bullet point above, neither we nor the acquiring or surviving entity has a class of common securities (or American Depositary Receipts representing such securities) listed on the NYSE, the NYSE American LLC or the Nasdaq Stock Market, or listed or quoted on an exchange or quotation system that is a successor to the NYSE, the NYSE American LLC or the Nasdaq Stock Market.

Redemption Procedures. In the event we elect to redeem Series G Preferred Stock pursuant to our optional redemption right or our special optional redemption right, the notice of redemption will be given to each holder of record of Series G Preferred Stock called for redemption at such holder’s address as it appears on our stock records and will state the following:

- the redemption date;
- the number of shares of Series G Preferred Stock to be redeemed;
- the redemption price;
- the place or places where certificates (if any) for the Series G Preferred Stock are to be surrendered for payment of the redemption price;
- that dividends on the shares to be redeemed will cease to accumulate on the redemption date;
- if applicable, that such redemption is being made in connection with a Change of Control and, in that case, a brief description of the transaction or transactions constituting such Change of Control; and
- if such redemption is being made in connection with a Change of Control, that the holders of the shares of Series G Preferred Stock being so called for redemption will not be able to tender such shares of Series G Preferred Stock for conversion in connection with the Change of Control and that each share of Series G Preferred Stock tendered for conversion that is called, prior to the Change of Control Conversion Date, for redemption will be redeemed on the related date of redemption instead of converted on the Change of Control Conversion Date.

If less than all of the Series G Preferred Stock held by any holder is to be redeemed, the notice given to such holder shall also specify the number of shares of Series G Preferred Stock held by such holder to be redeemed. No failure to give such notice or any defect thereto or in the giving thereof will affect the validity of the proceedings for the redemption of any shares of Series G Preferred Stock, except as to the holder to whom notice was defective or not given.

Holders of shares of Series G Preferred Stock to be redeemed must surrender such shares at the place designated in the notice of redemption and will be entitled to the redemption price and any accumulated and unpaid dividends payable upon the redemption following the surrender.

If notice of redemption of any shares of Series G Preferred Stock has been given and if we have irrevocably set apart for payment the funds necessary for redemption (including any accumulated and unpaid dividends) in trust for the benefit of the holders of the shares of Series G Preferred Stock so called for redemption, then from and after the redemption date (unless we default in providing for the payment of the redemption price plus accumulated and unpaid dividends, if any), dividends will cease to accumulate on those shares of Series G Preferred Stock, those shares of Series G Preferred Stock will no longer be deemed outstanding and all rights of the holders of those shares will terminate, except the right to receive the redemption price plus accumulated and unpaid dividends, if any, payable upon redemption.

If any redemption date is not a business day, then the redemption price and accumulated and unpaid dividends, if any, payable upon redemption may be paid on the next business day and no interest, additional dividends or other sums will accumulate on the amount payable for the period from and after that redemption date to that next business day.

If less than all of the outstanding shares of Series G Preferred Stock are to be redeemed, the shares of Series G Preferred Stock to be redeemed will be selected pro rata (as nearly as may be practicable without creating fractional shares) or by lot. If such redemption is to be by lot and if, as a result of such redemption, any holder of Series G Preferred Stock would own, or be deemed by virtue of certain attribution provisions of the Code to own, in excess of 9.8% in value or in number of shares (whichever is more restrictive) of any class or series of our stock (including the Series G Preferred Stock), or violate any other restriction or limitation of our stock set forth in our charter, then, except as otherwise provided in our charter, we will redeem the requisite number of shares of Series G Preferred Stock of that holder such that the holder will not own or be deemed by virtue of certain attribution provisions of the Code to own, subsequent to the redemption, in excess of 9.8% in value or in number of shares (whichever is more restrictive) of any class or series of our stock or violate any other restriction or limitation of our stock set forth in our charter. See the heading “Description of Equity Securities—Restrictions on Ownership and Transfer” in this exhibit.

Immediately prior to any redemption of Series G Preferred Stock, we will pay, in cash, any accumulated and unpaid dividends to, but excluding, the redemption date, unless a redemption date falls after a dividend record date and prior to the corresponding dividend payment date, in which case each holder of Series G Preferred Stock at the close of business on such dividend record date will be entitled to the dividend payable on such shares on the corresponding dividend payment date notwithstanding the redemption of such shares before such dividend payment date. Except as provided above, we will make no payment or allowance for unpaid dividends, whether or not in arrears, on shares of the Series G Preferred Stock to be redeemed.

Unless full cumulative dividends on all shares of Series G Preferred Stock have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof has been or contemporaneously is set apart for payment for all past Dividend Periods, no shares of Series G Preferred Stock may be redeemed unless all outstanding shares of Series G Preferred Stock are simultaneously redeemed, and we may not purchase or otherwise acquire directly or indirectly any shares of Series G Preferred Stock (except by conversion into or exchange for shares of, or options, warrants or rights to purchase or subscribe for, our common stock or other Junior Stock we may issue or pursuant to a purchase or exchange offer made on the same terms to all holders of Series G Preferred Stock and all Parity Stock); provided, however, that the foregoing will not prevent the redemption, purchase or acquisition by us of shares of Series G Preferred Stock for the purpose of enforcing restrictions on ownership and transfer of our stock contained in our charter, including in order to preserve our qualification as a REIT.

Subject to applicable law, we may purchase shares of Series G Preferred Stock in the open market, by tender or by privately negotiated transactions. Any shares of Series G Preferred Stock that we acquire, by redemption or otherwise, shall be reclassified as authorized but unissued shares of preferred stock, without designation as to class or series, and may thereafter be issued as any class or series of preferred stock.

Conversion Rights

Upon the occurrence of a Change of Control, each holder of Series G Preferred Stock will have the right (unless, prior to the Change of Control Conversion Date, we have provided notice of our election to redeem some or all of the shares of Series G Preferred Stock held by such holder as described above under “—Redemption,” in which case such holder will have the right only with respect to shares of Series G Preferred Stock that are not called for redemption) to convert some or all of the shares of the Series G Preferred Stock held by such holder (the “Change of Control Conversion Right”) on the Change of Control Conversion Date into a number of shares of our common stock per share of Series G Preferred Stock (the “Common Stock Conversion Consideration”) equal to the lesser of:

- the quotient obtained by dividing (i) the sum of the \$25.00 liquidation preference per share of Series G Preferred Stock, plus any accumulated and unpaid dividends thereon (whether or not authorized or declared) to, but excluding, the Change of Control Conversion Date (unless the Change of Control Conversion Date is after a dividend record date and prior to the corresponding dividend payment date for the Series G Preferred Stock, in which case no additional amount for such accumulated and unpaid dividends to be paid on such dividend payment date will be included in this sum) by (ii) the Common Stock Price, as defined below (such quotient, the “Conversion Rate”); and
- 4.32152, or the “Share Cap,” subject to certain adjustments as described below.

Notwithstanding anything in our charter to the contrary and except as otherwise required by law, the persons who are the holders of record of shares of Series G Preferred Stock at the close of business on a dividend record date will be entitled to receive the dividend payable on the corresponding dividend payment date notwithstanding the conversion of those shares after such dividend record date and on or prior to such dividend payment date and, in such case, the full amount of such dividend will be paid on such dividend payment date to the persons who were the holders of record at the close of business on such dividend record date. Except as provided in this paragraph, we will make no allowance for unpaid dividends that are not in arrears on the shares of Series G Preferred Stock to be converted.

The Share Cap is subject to pro rata adjustments for any share splits (including those effected pursuant to a distribution of our common stock to existing holders of our common stock), subdivisions or combinations (in each case, a “Share Split”) with respect to our common stock as follows: the adjusted Share Cap as the result of a Share Split will be the number of shares of our common stock that is equivalent to the product obtained by multiplying (i) the Share Cap in effect immediately prior to such Share Split by (ii) a fraction, the numerator of which is the number of shares of our common stock outstanding immediately after giving effect to such Share Split and the denominator of which is the number of shares of our common stock outstanding immediately prior to such Share Split.

For the avoidance of doubt, subject to the immediately succeeding paragraph, the aggregate number of shares of our common stock (or equivalent Alternative Conversion Consideration, as applicable) issuable or deliverable, as applicable, in connection with the exercise of the Change of Control Conversion Right will not exceed the product of the Share Cap times the aggregate number of shares of the Series G Preferred Stock issued and outstanding at the Change of Control Conversion Date (or equivalent Alternative Conversion Consideration, as applicable) (the “Exchange Cap”). The Exchange Cap is subject to pro rata adjustments for any Share Splits on the same basis as the corresponding adjustment to the Share Cap.

In the case of a Change of Control pursuant to which our common stock is or will be converted into cash, securities or other property or assets (including any combination thereof) (the “Alternative Form Consideration”), a holder of Series G Preferred Stock will receive upon conversion of such shares of the Series G Preferred Stock the kind and amount of Alternative Form Consideration which such holder would have owned or been entitled to receive upon the Change of Control had such holder held a number of shares of our common stock equal to the Common Stock Conversion Consideration immediately prior to the effective time of the Change of Control (the “Alternative Conversion Consideration”). The Common Stock Conversion

Consideration or the Alternative Conversion Consideration, whichever shall be applicable to a Change of Control, is referred to as the “Conversion Consideration.”

If the holders of our common stock have the opportunity to elect the form of consideration to be received in the Change of Control, the Conversion Consideration in respect of such Change of Control will be deemed to be the kind and amount of consideration actually received by holders of a majority of the outstanding shares of our common stock that made or voted for such an election (if electing between two types of consideration) or holders of a plurality of the outstanding shares of our common stock that made or voted for such an election (if electing between more than two types of consideration), as the case may be, and will be subject to any limitations to which all holders of our common stock are subject, including, without limitation, pro rata reductions applicable to any portion of the consideration payable in such Change of Control.

We will not issue fractional shares of our common stock upon the conversion of the Series G Preferred Stock in connection with a Change of Control. Instead, we will make a cash payment equal to the value of such fractional shares based upon the Common Stock Price used in determining the Common Stock Conversion Consideration for such Change of Control.

Within 15 days following the occurrence of a Change of Control, provided that we have not exercised our right to redeem all shares of Series G Preferred Stock pursuant to the redemption provisions described above, we will provide to holders of Series G Preferred Stock a notice of occurrence of the Change of Control that describes the resulting Change of Control Conversion Right, which notice shall be delivered to the holders of record of the shares of Series G Preferred Stock to their addresses as they appear on our stock records. No failure to give such notice or any defect thereto or in the giving thereof will affect the validity of the proceedings for the conversion of any shares of Series G Preferred Stock except as to the holder to whom notice was defective or not given. This notice will state the following:

- the events constituting the Change of Control;
- the date of the Change of Control;
- the last date on which the holders of Series G Preferred Stock may exercise their Change of Control Conversion Right;
- the method and period for calculating the Common Stock Price;
- the Change of Control Conversion Date;
- that if, prior to the Change of Control Conversion Date, we have provided notice of our election to redeem all or any shares of Series G Preferred Stock, holders of Series G Preferred Stock that are subject to such notice of redemption will not be able to convert the shares of Series G Preferred Stock called for redemption and such shares will be redeemed on the related redemption date, even if such shares have already been tendered for conversion pursuant to the Change of Control Conversion Right;
- if applicable, the type and amount of Alternative Conversion Consideration entitled to be received per share of Series G Preferred Stock;
- the name and address of the paying agent, transfer agent and conversion agent for the Series G Preferred Stock;
- the procedures that the holders of Series G Preferred Stock must follow to exercise the Change of Control Conversion Right (including procedures for surrendering shares of Series G Preferred Stock for conversion through the facilities of a Depository (as defined below)), including the form of conversion notice to be delivered by such holders as described below; and
- the last date on which holders of Series G Preferred Stock may withdraw shares of Series G Preferred Stock surrendered for conversion and the procedures that such holders must follow to effect such a withdrawal.

Under such circumstances, we also will issue a press release containing such notice for publication on the Wall Street Journal, Business Wire, PR Newswire or Bloomberg Business News (or, if these organizations are not in existence at the time of issuance of the press release, such other news or press

organization as is reasonably calculated to broadly disseminate the relevant information to the public), and post a notice on our website (if any), in any event prior to the opening of business on the first business day following any date on which we provide the notice described above to the holders of Series G Preferred Stock.

To exercise the Change of Control Conversion Right, the holders of Series G Preferred Stock will be required to deliver, on or before the close of business on the Change of Control Conversion Date, the certificates (if any) representing the shares of Series G Preferred Stock to be converted, duly endorsed for transfer (or, in the case of any shares of Series G Preferred Stock held in book-entry form through a Depository or shares directly registered with the transfer agent therefor, to deliver, on or before the close of business on the Change of Control Conversion Date, the shares of Series G Preferred Stock to be converted through the facilities of such Depository or through such transfer agent, respectively), together with a written conversion notice in the form provided by us, duly completed, to our transfer agent. The conversion notice must state:

- the relevant Change of Control Conversion Date;
- the number of shares of Series G Preferred Stock to be converted; and
- that the shares of the Series G Preferred Stock are to be converted pursuant to the applicable provisions of the articles supplementary designating the Series G Preferred Stock.

The “Change of Control Conversion Date” is the date the Series G Preferred Stock is to be converted, which will be a business day selected by us that is no fewer than 20 days nor more than 35 days after the date on which we provide the notice described above to the holders of Series G Preferred Stock.

The “Common Stock Price” is (i) if the consideration to be received in the Change of Control by the holders of our common stock is solely cash, the amount of cash consideration per share of our common stock or (ii) if the consideration to be received in the Change of Control by holders of our common stock is other than solely cash (x) the average of the closing sale prices per share of our common stock (or, if no closing sale price is reported, the average of the closing bid and ask prices per share or, if more than one in either case, the average of the average closing bid and the average closing ask prices per share) for the ten consecutive trading days immediately preceding, but not including, the date on which such Change of Control occurred as reported on the principal U.S. securities exchange on which our common stock is then traded, or (y) if our common stock is not then listed for trading on a U.S. securities exchange, the average of the last quoted bid prices for our common stock in the over-the-counter market as reported by OTC Markets Group Inc. or similar organization for the ten consecutive trading days immediately preceding, but not including, the date on which such Change of Control occurred.

Holders of Series G Preferred Stock may withdraw any notice of exercise of a Change of Control Conversion Right (in whole or in part) by a written notice of withdrawal delivered to our transfer agent prior to the close of business on the business day prior to the Change of Control Conversion Date. The notice of withdrawal delivered by any holder must state:

- the number of withdrawn shares of Series G Preferred Stock;
- if certificated shares of Series G Preferred Stock have been surrendered for conversion, the certificate numbers of the withdrawn shares of Series G Preferred Stock; and
- the number of shares of Series G Preferred Stock, if any, which remain subject to the holder’s conversion notice.

Notwithstanding the foregoing, if any shares of Series G Preferred Stock are held in book-entry form through The Depository Trust Company (“DTC”) or a similar depository (each, a “Depository”), the conversion notice and/or the notice of withdrawal, as applicable, must comply with applicable procedures, if any, of the applicable Depository.

Shares of Series G Preferred Stock as to which the Change of Control Conversion Right has been properly exercised and for which the conversion notice has not been properly withdrawn will be converted

into the applicable Conversion Consideration in accordance with the Change of Control Conversion Right on the Change of Control Conversion Date, unless prior to the Change of Control Conversion Date we have provided notice of our election to redeem some or all of the shares of Series G Preferred Stock, as described above under “—Redemption,” in which case only the shares of Series G Preferred Stock properly surrendered for conversion and not properly withdrawn that are not called for redemption will be converted as aforesaid. If we elect to redeem shares of Series G Preferred Stock that would otherwise be converted into the applicable Conversion Consideration on a Change of Control Conversion Date, such shares of Series G Preferred Stock will not be so converted and the holders of such shares will be entitled to receive on the applicable redemption date the redemption price described above under “—Redemption.”

We will deliver all securities, cash and any other property owing upon conversion no later than the third business day following the Change of Control Conversion Date. Notwithstanding the foregoing, the persons entitled to receive any shares of our common stock or other securities delivered on conversion will be deemed to have become the holders of record thereof as of the Change of Control Conversion Date.

In connection with the exercise of any Change of Control Conversion Right, we will comply with all applicable federal and state securities laws and stock exchange rules in connection with any conversion of shares of the Series G Preferred Stock into shares of our common stock or other property. Notwithstanding any other provision of the Series G Preferred Stock, no holder of Series G Preferred Stock will be entitled to convert such shares of the Series G Preferred Stock into shares of our common stock to the extent that receipt of such shares of common stock would cause such holder (or any other person) to violate the applicable restrictions on transfer and ownership of our stock contained in our charter, unless we provide an exemption from this limitation to such holder pursuant to the terms of our charter. Please see the section entitled “Description of Equity Securities—Restrictions on Ownership and Transfer” in this exhibit.

The Change of Control conversion feature may make it more difficult for a third party to acquire us or discourage a party from acquiring us.

Except as provided above in connection with a Change of Control, the Series G Preferred Stock is not convertible into or exchangeable for any other securities or property.

Voting Rights

Holders of Series G Preferred Stock do not have any voting rights, except as set forth below.

Whenever dividends on any shares of Series G Preferred Stock are in arrears for six or more full quarterly Dividend Periods, whether or not consecutive, the number of directors constituting our Board will be automatically increased by two (if not already increased by two by reason of the election of directors by the holders of any other class or series of Parity Stock upon which like voting rights have been conferred and are exercisable) and the holders of Series G Preferred Stock, voting as a single class with holders of the Parity Stock upon which like voting rights have been conferred and are exercisable, will be entitled to vote for the election of those two additional directors at a special meeting called by us at the request of the holders of record of at least 25% of the outstanding shares of Series G Preferred Stock and all other classes or series of Parity Stock upon which like voting rights have been conferred and are exercisable to be held no later than 90 days after our receipt of such request (unless the request is received less than 90 days before the date fixed for the next annual or special meeting of our stockholders, in which case, such vote will be held at the earlier of the next annual or special meeting of the stockholders to the extent permitted by applicable law), and at each subsequent annual meeting until all dividends accumulated on the Series G Preferred Stock for all past Dividend Periods and the then current Dividend Period will have been fully paid. In that case, the right of holders of Series G Preferred Stock to elect any directors will cease and, unless there are other classes or series of Parity Stock upon which like voting rights have been conferred and are exercisable, the term of office of any directors elected by holders of Series G Preferred Stock will immediately terminate and the number of directors constituting the board of directors will be reduced accordingly. For the avoidance of doubt, in no event will the total number of directors elected by holders of Series G Preferred Stock (voting

together as a single class with the Parity Stock upon which like voting rights have been conferred and are exercisable) pursuant to these voting rights exceed two. The directors elected by the holders of the Series G Preferred Stock and the holders of the Parity Stock upon which like voting rights have been conferred and are exercisable will be elected by a plurality of the votes cast by the holders of the outstanding shares of Series G Preferred Stock when they have the voting rights described in this paragraph and the Parity Stock upon which like voting rights have been conferred and are exercisable (voting together as a single class) to serve until our next annual meeting of stockholders and until their successors are duly elected and qualify or until such directors' right to hold the office terminates as described above, whichever occurs earlier.

On each matter on which holders of Series G Preferred Stock are entitled to vote, each share of Series G Preferred Stock will be entitled to one vote, except that when shares of any other class or series of preferred stock we may issue, including the Parity Stock, have the right to vote with the Series G Preferred Stock as a single class on any matter, the Series G Preferred Stock, the Parity Stock and each such other class or series of stock will have one vote for each \$25.00 of liquidation preference (excluding accumulated dividends). If, at any time when the voting rights conferred upon the Series G Preferred Stock are exercisable, any vacancy in the office of a director elected by the holders of the Parity Stock upon which like voting rights have been conferred and are exercisable will occur, then such vacancy may be filled only by the remaining director or by vote of the holders of the outstanding Series G Preferred Stock and any other classes or series of Parity Stock upon which like voting rights have been conferred and are exercisable.

Any director elected by holders of shares of Series G Preferred Stock and any class or series of Parity Stock upon which like voting rights have been conferred and are exercisable may be removed at any time, with or without cause, by the vote of, and may not be removed otherwise than by the vote of, the holders of record of a majority of the outstanding shares of Series G Preferred Stock and any class or series of Parity Stock we may issue when they have the voting rights described above (voting as a single class with all other classes or series of Parity Stock upon which like voting rights have been conferred and are exercisable).

So long as any shares of Series G Preferred Stock remain outstanding, we will not, without the affirmative vote or consent of the holders of at least two-thirds of the shares of Series G Preferred Stock, and Parity Stock upon which like voting rights have been conferred and are exercisable (voting together as a single class), (i) authorize, create, or increase the authorized or issued amount of, any class or series of Senior Stock or reclassify any of our authorized stock into such shares, or create or authorize or issue any obligation or security convertible into or evidencing the right to purchase any such shares or (ii) amend, alter or repeal the provisions of our charter, whether by merger, conversion, consolidation or otherwise, so as to materially and adversely affect any right, preference, privilege or voting power of the Series G Preferred Stock (each, an "Event"); provided, however, with respect to the occurrence of any Event set forth in clause (ii) above, so long as the Series G Preferred Stock remains outstanding with the terms thereof materially unchanged, or the holders of Series G Preferred Stock receive shares of stock or other equity interests with rights, preferences, privileges and voting powers substantially the same as those of the Series G Preferred Stock, taking into account that upon the occurrence of an Event we may not be the successor entity, the occurrence of any such Event will not be deemed to materially and adversely affect the rights, preferences, privileges or voting power of holders of Series G Preferred Stock; and, provided further, that any increase in the amount of the authorized or issued Series G Preferred Stock or the creation or issuance, or any increase in the amounts authorized of any Parity Stock, including the Series D Preferred Stock, Series F Preferred Stock and Series I Preferred Stock, or Junior Stock will not be deemed to materially and adversely affect the rights, preferences, privileges or voting powers of holders of Series G Preferred Stock. Notwithstanding the foregoing, if any amendment, alteration or repeal of any provision of our charter would materially and adversely affect the rights, preferences or privileges of the Series G Preferred Stock disproportionately relative to other classes or series of Parity Stock, including the Series D Preferred Stock, Series F Preferred Stock, Series I Preferred Stock, then the affirmative vote or consent of the holders of at least two-thirds of the outstanding shares of Series G Preferred Stock (voting as a separate class) shall also be required.

The foregoing voting provisions will not apply if, at or prior to the time when the act with respect to which such vote would otherwise be required shall be effected, all outstanding shares of Series G Preferred

Stock have been redeemed or called for redemption upon proper notice and sufficient funds have been irrevocably set apart to effect such redemption.

Except as expressly stated in our charter or as may be required by applicable law, the Series G Preferred Stock do not have any relative, participating, optional or other special voting rights or powers and the consent of the holders thereof will not be required for the taking of any corporate action. The holders of Series G Preferred Stock have exclusive voting rights on any amendment to our charter that would alter the contract rights, as expressly set forth in the charter, of only the Series G Preferred Stock.

Information Rights

During any period in which we are not subject to Section 13 or 15(d) of the Exchange Act and any shares of Series G Preferred Stock are outstanding, we will use our best efforts to (i) transmit through our website at <http://www.annaly.com> (or other permissible means under the Exchange Act) copies of the Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q that we would have been required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act if we were subject thereto (other than any exhibits that would have been required). We will use our best efforts to provide such reports on our website within 15 days after the respective dates by which we would have been required to file such reports with the SEC if we were subject to Section 13 or 15(d) of the Exchange Act and we were a “non-accelerated filer” within the meaning of the Exchange Act.

Restrictions on Transfer and Ownership

To assist us in qualifying as a REIT, our charter prohibits anyone from acquiring or holding, directly or constructively, ownership of 9.8%, in number of shares or value, of each class or series of our outstanding shares. For this purpose the term “ownership” generally means either direct ownership or constructive ownership in accordance with the constructive ownership provisions of Section 544 of the Code, as modified in Section 856(h) of the Code. These provisions may restrict the ability of a holder of Series G Preferred Stock to convert such stock into our common stock as described above under “—Conversion Rights.” Our board of directors may, in its sole discretion, exempt a person from the 9.8% ownership limit under certain circumstances as described under “Description of Equity Securities—Restrictions on Ownership and Transfer” in this exhibit.

For further information regarding restrictions on ownership and transfer of the Series G Preferred Stock, please see the section entitled “Description of Equity Securities—Restrictions on Ownership and Transfer” in this exhibit.

Preemptive Rights

No holders of Series G Preferred Stock, as holders of Series G Preferred Stock, have any preemptive rights to purchase or subscribe for our common stock or any of our other securities.

Book-Entry Procedures

DTC acts as securities depository for the Series G Preferred Stock, which were issued in the form of global securities held in book-entry form. We will not issue certificates to holders of the Series G Preferred Stock for the shares of Series G Preferred Stock that are purchased, unless DTC’s services are discontinued as described below.

Title to book-entry interests in the Series G Preferred Stock will pass by book-entry registration of the transfer within the records of DTC in accordance with its procedures. Book-entry interests in the securities may be transferred within DTC in accordance with procedures established for these purposes by DTC. Each person owning a beneficial interest in shares of the Series G Preferred Stock must rely on the procedures of

DTC and the participant through which such person owns its interest to exercise its rights as a holder of the Series G Preferred Stock.

DTC has advised us that it is a limited-purpose trust company organized under the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered under the provisions of Section 17A of the Exchange Act. DTC holds securities that its participants (“Direct Participants”) deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. Access to the DTC system is also available to others such as securities brokers and dealers, including the underwriters, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The rules applicable to DTC and its Direct and Indirect Participants are on file with the SEC.

When shares of Series G Preferred Stock are purchased within the DTC system, the purchase must be by or through a Direct Participant. The Direct Participant will receive a credit for the Series G Preferred Stock on DTC’s records. Holders of the Series G Preferred Stock will be considered to be the “beneficial owner” of the Series G Preferred Stock. Such beneficial ownership interest will be recorded on the Direct and Indirect Participants’ records, but DTC will have no knowledge of individual ownership. DTC’s records reflect only the identity of the Direct Participants to whose accounts shares of Series G Preferred Stock are credited.

Holders of the Series G Preferred Stock will not receive written confirmation from DTC of the purchase. The Direct or Indirect Participants through whom the Series G Preferred Stock were purchased should send such holders written confirmations providing details of the transactions, as well as periodic statements of the holdings. The Direct and Indirect Participants are responsible for keeping an accurate account of the holdings of their customers.

Transfers of ownership interests held through Direct and Indirect Participants will be accomplished by entries on the books of Direct and Indirect Participants acting on behalf of the beneficial owners.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

We understand that, under DTC’s existing practices, in the event that we request any action of the holders, or an owner of a beneficial interest in a global security, such as a holder of the Series G Preferred Stock, desires to take any action which a holder is entitled to take under our charter (including the articles supplementary designating the Series G Preferred Stock), DTC would authorize the Direct Participants holding the relevant shares to take such action, and those Direct Participants and any Indirect Participants would authorize beneficial owners owning through those Direct and Indirect Participants to take such action or would otherwise act upon the instructions of beneficial owners owning through them.

Any redemption notices with respect to the Series G Preferred Stock will be sent to Cede & Co. If less than all of the outstanding shares of Series G Preferred Stock are being redeemed, DTC will reduce each Direct Participant’s holdings of shares of Series G Preferred Stock in accordance with its procedures.

In those instances where a vote is required, neither DTC nor Cede & Co. itself will consent or vote with respect to the shares of Series G Preferred Stock. Under its usual procedures, DTC would mail an omnibus proxy to us as soon as possible after the record date. The omnibus proxy assigns Cede & Co.’s

consenting or voting rights to those Direct Participants whose accounts the shares of Series G Preferred Stock are credited to on the record date, which are identified in a listing attached to the omnibus proxy.

Dividends on the Series G Preferred Stock will be made directly to DTC's nominee (or its successor, if applicable). DTC's practice is to credit participants' accounts on the relevant payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on that payment date.

Payments by Direct and Indirect Participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name." These payments will be the responsibility of the participant and not of DTC, us or any agent of ours.

DTC may discontinue providing its services as securities depository with respect to the Series G Preferred Stock at any time by giving reasonable notice to us. Additionally, we may decide to discontinue the book-entry only system of transfers with respect to the Series G Preferred Stock. In that event, we will print and deliver certificates in fully registered form for the Series G Preferred Stock. If DTC notifies us that it is unwilling to continue as securities depository, or it is unable to continue or ceases to be a clearing agency registered under the Exchange Act and a successor depository is not appointed by us within 90 days after receiving such notice or becoming aware that DTC is no longer so registered, we will issue the Series G Preferred Stock in definitive form, at our expense, upon registration of transfer of, or in exchange for, such global security.

According to DTC, the foregoing information with respect to DTC has been provided to the financial community for informational purposes only and is not intended to serve as a representation, warranty or contract modification of any kind.

Global Clearance and Settlement Procedures

Secondary market trading among DTC's Participants will occur in the ordinary way in accordance with DTC's rules and will be settled in immediately available funds using DTC's Same-Day Funds Settlement System.

Description of the Series I Preferred Stock

The description of certain terms of the Series I Preferred Stock in this exhibit does not purport to be complete and is in all respects subject to, and qualified in its entirety by references to the relevant provisions of our charter, the articles supplementary for Series I Preferred Stock, our bylaws and Maryland law. In this section, (i) our “Junior Stock” means our common stock and any class or series of stock we may issue in the future that by its terms ranks junior to the Series I Preferred Stock with respect to the payment of dividends and the distribution of assets in the event of our liquidation, dissolution, or winding up, (ii) our “Parity Stock” means our Series D Preferred Stock, our Series F Preferred Stock, our Series G Preferred Stock, and any other class or series of stock issued by us from time to time that by its terms ranks on parity with the Series D Preferred Stock, Series F Preferred Stock, Series G Preferred Stock and Series I Preferred Stock with respect to the payment of dividends and the distribution of assets in the event of our liquidation, dissolution or winding up, and (iii) our “Senior Stock” means any class or series of stock we may issue in the future that by its terms ranks senior to the Series I Preferred Stock with respect to the payment of dividends and the distribution of assets in the event of our liquidation, dissolution or winding up. The term “stock” does not include any convertible or exchangeable debt securities we may issue in the future.

General

Pursuant to our charter, our Board and a committee of the Board classified and designated 18,400,000 shares of the Series I Preferred Stock. Our Board may, without the approval of holders of Series D Preferred Stock, Series F Preferred Stock, Series G Preferred Stock, Series I Preferred Stock or our common stock, designate additional classes or series of authorized preferred stock ranking junior to or on parity with the Series I Preferred Stock or designate additional shares of the Series I Preferred Stock and authorize the issuance of such shares.

Listing

Our Series I Preferred Stock is listed on the New York Stock Exchange under the symbol “NYL.I”.

Transfer Agent and Registrar

The registrar, transfer agent and dividend and redemption price disbursing agent in respect of the Series I Preferred Stock is Computershare Inc.

Maturity

The Series I Preferred Stock has no stated maturity and is not subject to any sinking fund or mandatory redemption. Shares of the Series I Preferred Stock will remain outstanding indefinitely unless we decide to redeem or otherwise repurchase them or they become convertible and are converted as described below under “—Conversion Rights.” We are not required to set apart for payment the funds to redeem the Series I Preferred Stock.

Ranking

The Series I Preferred Stock ranks, with respect to rights to the payment of dividends and the distribution of assets upon our liquidation, dissolution or winding up:

- senior to all classes or series of our common stock and any other Junior Stock we may issue;
- on a parity with our Parity Stock;
- junior to any Senior Stock we may issue; and

- effectively junior to all of our existing and future indebtedness (including indebtedness convertible into or exchangeable for our common stock or preferred stock) and the indebtedness of our existing and future subsidiaries.

Dividends

Holders of shares of the Series I Preferred Stock are entitled to receive, when, as and if authorized by our Board and declared by us, out of funds legally available for the payment of dividends, cumulative cash dividends. The initial dividend rate for the Series I Preferred Stock from and including the date of original issuance to, but not including, June 30, 2024 (the “Fixed Rate Period”) will be 6.750% of the \$25.00 per share liquidation preference per annum (equivalent to \$1.6875 per annum per share). On and after June 30, 2024 (the “Floating Rate Period”), dividends on the Series I Preferred Stock will accumulate at a percentage of the \$25.00 liquidation preference equal to an annual floating rate of the Three-Month LIBOR Rate plus a spread of 4.989%. Dividends on the Series I Preferred Stock will accumulate daily and be cumulative from, and including, the date of original issue and will be payable quarterly in arrears on the last day of each March, June, September and December (each, as may be modified as provided below, a “dividend payment date”). If any dividend payment date is not a business day, as defined in the articles supplementary classifying and designating the Series I Preferred Stock, then the dividend which would otherwise have been payable on that dividend payment date may be paid on the next succeeding business day with the same force and effect as if paid on such dividend payment date, and no interest, additional dividends or sums in lieu of interest will be payable for the period from and after that dividend payment date to that next succeeding business day. Dividends payable on the Series I Preferred Stock for the Fixed Rate Period will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends payable on the Series I Preferred Stock for the Floating Rate Period will be computed based on the actual number of days in a Dividend Period and a 360-day year. Dividends will be payable to holders of record as they appear on our stock records at the close of business on the applicable record date, which will be no fewer than ten days and no more than 35 days prior to the applicable dividend payment date, as shall be fixed by the board of directors (each, a “dividend record date”). The dividends payable on any dividend payment date shall include dividends accumulated to, but not including, such dividend payment date.

For each Dividend Period during the Floating Rate Period, LIBOR (the London interbank offered rate) (“Three-Month LIBOR Rate”) will be determined by us, as of the applicable Dividend Determination Date (as defined below), in accordance with the following provisions:

- LIBOR will be the rate (expressed as a percentage per year) for deposits in U.S. dollars having an index maturity of three months, in amounts of at least \$1,000,000, as such rate appears on “Reuters Page LIBOR01” at approximately 11:00 a.m. (London time) on the relevant Dividend Determination Date; or
- if no such rate appears on “Reuters Page LIBOR01” or if the “Reuters Page LIBOR01” is not available at approximately 11:00 a.m. (London time) on the relevant Dividend Determination Date, then we will select four nationally-recognized banks in the London interbank market and request that the principal London offices of those four selected banks provide us with their offered quotation for deposits in U.S. dollars for a period of three months, commencing on the first day of the applicable Dividend Period, to prime banks in the London interbank market at approximately 11:00 a.m. (London time) on that Dividend Determination Date for the applicable Dividend Period. Offered quotations must be based on a principal amount equal to an amount that, in our discretion, is representative of a single transaction in U.S. dollars in the London interbank market at that time. If at least two quotations are provided, the Three-Month LIBOR Rate for such Dividend Period will be the arithmetic mean (rounded upward if necessary, to the nearest 0.00001 of 1%) of those quotations. If fewer than two quotations are provided, the Three-Month LIBOR Rate for such Dividend Period will be the arithmetic mean (rounded upward if necessary, to the nearest 0.00001 of 1%) of the rates quoted at approximately 11:00 a.m. (New York City time) on that Dividend Determination Date for such Dividend Period by three nationally-recognized banks in New York, New York selected by us, for loans in U.S. dollars to

nationally-recognized European banks (as selected by us), for a period of three months commencing on the first day of such Dividend Period. The rates quoted must be based on an amount that, in our discretion, is representative of a single transaction in U.S. dollars in that market at that time. If no quotation is provided as described above, then if a Calculation Agent (as defined below) has not been appointed at such time, we will appoint a Calculation Agent who shall, after consulting such sources as it deems comparable to any of the foregoing quotations or display page, or any such source as it deems reasonable from which to estimate LIBOR or any of the foregoing lending rates, shall determine LIBOR for the second London Business Day immediately preceding the first day of such distribution period in its sole discretion. If the Calculation Agent is unable or unwilling to determine LIBOR as provided in the immediately preceding sentence, then LIBOR will be equal to Three-Month LIBOR for the then current Dividend Period, or, in the case of the first Dividend Period in the Floating Rate Period, the most recent dividend rate that would have been determined based on the last available Reuters Page LIBOR01 had the Floating Rate Period been applicable prior to the first Dividend Period in the Floating Rate Period.

Notwithstanding the foregoing, if we determine on the relevant Dividend Determination Date that the LIBOR base rate has been discontinued, then we will appoint a Calculation Agent and the Calculation Agent will consult with an investment bank of national standing to determine whether there is an industry accepted substitute or successor base rate to Three-Month LIBOR Rate. If, after such consultation, the Calculation Agent determines that there is an industry accepted substitute or successor base rate, the Calculation Agent shall use such substitute or successor base rate. In such case, the Calculation Agent in its sole discretion may (without implying a corresponding obligation to do so) also implement changes to the business day convention, the definition of business day, the Dividend Determination Date, the interest rate spread and any method for obtaining the substitute or successor base rate if such rate is unavailable on the relevant Business Day, in a manner that is consistent with industry accepted practices for such substitute or successor base rate. Unless the Calculation Agent determines that there is an industry accepted substitute or successor base rate as so provided above, the Calculation Agent will, in consultation with us, follow the steps specified in the second bullet point in the immediately preceding paragraph in order to determine Three-Month LIBOR Rate for the applicable Dividend Period.

“Calculation Agent” shall mean a third party independent financial institution of national standing with experience providing such services, which has been selected by us.

“Dividend Determination Date” means the London Business Day (as defined below) immediately preceding the first date of the applicable Dividend Period.

“Dividend Period” means the period from, and including, a dividend payment date to, but excluding, the next succeeding dividend payment date, except for the initial Dividend Period, which will be the period from, and including, the original issue date of the Series I Preferred Stock to, but excluding, September 30, 2019.

“London Business Day” means any day on which dealings in deposits in U.S. dollars are transacted in the London interbank market.

“Reuters Page LIBOR01” means the display so designated on the Reuters 3000 Xtra (or such other page as may replace the LIBOR01 page on that service, or such other service as may be nominated by the ICE Benchmark Administration Limited, or ICE, or its successor, or such other entity assuming the responsibility of ICE or its successor in the event ICE or its successor no longer does so, as the successor service, for the purpose of displaying London interbank offered rates for U.S. dollar deposits).

No dividends on shares of Series I Preferred Stock may be authorized by our Board or paid or set apart for payment by us at any time when the terms and provisions of any agreement of ours, including any agreement relating to our indebtedness, prohibit the authorization, payment or setting apart for payment

thereof or provide that the authorization, payment or setting apart for payment thereof would constitute a breach of the agreement or a default under the agreement, or if the authorization, payment or setting apart for payment is restricted or prohibited by law.

Notwithstanding the foregoing, dividends on the Series I Preferred Stock will accumulate whether or not (i) the terms and provisions of any laws or agreements referred to in the preceding paragraph at any time prohibit the current payment of dividends, (ii) we have earnings, (iii) there are funds legally available for the payment of those dividends and (iv) those dividends are declared. No interest, or sum in lieu of interest, will be payable in respect of any dividend payment or payments on the Series I Preferred Stock which may be in arrears, and holders of Series I Preferred Stock will not be entitled to any dividends in excess of full cumulative dividends described above. Any dividend payment made on the Series I Preferred Stock will first be credited against the earliest accumulated but unpaid dividend due with respect to those shares.

Future dividends on our common stock and preferred stock, including the Series I Preferred Stock, will be at the discretion of our Board and will depend on, among other things, our results of operations, cash flow from operations, financial condition and capital requirements, the annual distribution requirements under the REIT provisions of the Code, applicable law, any debt service requirements and any other factors our Board deems relevant. Accordingly, we cannot guarantee that we will be able to make cash distributions on the Series I Preferred Stock or what the actual dividends will be for any future period.

Except as noted below, unless full cumulative dividends on the Series I Preferred Stock have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for payment for all past Dividend Periods, no dividends (other than in shares of our common stock or other Junior Stock we may issue) may be declared or paid or set apart for payment upon our common stock or other Junior Stock or our Parity Stock and no other distribution may be declared or made upon our common stock or other Junior Stock or our Parity Stock. In addition, our common stock and other Junior Stock or Parity Stock we may issue may not be redeemed, purchased or otherwise acquired for any consideration (or any moneys be paid to or made available for a sinking fund for the redemption of any such securities) by us (except by conversion into or exchange for shares of, or options, warrants or rights to purchase or subscribe for, our common stock or other Junior Stock we may issue or pursuant to an exchange offer made on the same terms to all holders of Series I Preferred Stock and all Parity Stock). The foregoing will not, however, prevent the redemption, purchase or acquisition by us of shares of any class or series of stock for the purpose of enforcing restrictions on transfer and ownership of our stock contained in our charter, including in order to preserve our qualification as a REIT, or the redemption, purchase or acquisition by us of shares of our common stock for purposes of and in compliance with any incentive or benefit plan of ours.

When dividends are not paid in full (or a sum sufficient for such full payment is not so set apart) upon the Series I Preferred Stock and our Parity Stock, all dividends declared upon the Series I Preferred Stock and such Parity Stock must be declared pro rata so that the amount of dividends declared per share of Series I Preferred Stock and such Parity Stock will in all cases bear to each other the same ratio that accumulated dividends per share on the Series I Preferred Stock and such Parity Stock (which will not include any accrual in respect of unpaid dividends for prior Dividend Periods if such other Parity Stock do not have a cumulative dividend) bear to each other. No interest, or sum of money in lieu of interest, will be payable in respect of any dividend payment or payments on the Series I Preferred Stock which may be in arrears.

Liquidation Preference

In the event of our voluntary or involuntary liquidation, dissolution or winding up, the holders of Series I Preferred Stock will be entitled to be paid out of the assets we have legally available for distribution to our stockholders, subject to the preferential rights of the holders of any Senior Stock, a liquidation preference of \$25.00 per share, plus any accumulated and unpaid dividends thereon (whether or not authorized or declared) to, but excluding, the payment date, before any distribution of assets is made to holders of

common stock or other Junior Stock we may issue; and the holders of Series I Preferred Stock will not be entitled to any further payment.

In the event that, upon any such voluntary or involuntary liquidation, dissolution or winding up, our available assets are insufficient to pay the amount of the liquidating distributions on all outstanding shares of Series D Preferred Stock, Series F Preferred Stock, Series G Preferred Stock, Series I Preferred Stock and any other Parity Stock we may issue, then the holders of Series D Preferred Stock, Series F Preferred Stock, Series G Preferred Stock, Series I Preferred Stock and such other Parity Stock will share ratably in any such distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled.

Notice of any such liquidation stating the payment date or dates when, and the place or places where, the amounts distributable in each circumstance shall be payable, will be given no fewer than 30 days and no more than 60 days prior to the payment date, to each holder of record of Series I Preferred Stock at the address of such holder as it appears on our stock records. After payment of the full amount of the liquidating distributions to which they are entitled, the holders of Series I Preferred Stock will have no right or claim to any of our remaining assets. The consolidation, conversion or merger of us with or into any other corporation, trust or entity or of any other entity with or into us, the sale, lease, transfer or conveyance of all or substantially all of our property or business or a statutory share exchange, will not be deemed to constitute a liquidation, dissolution or winding up of us (although such events may give rise to the special optional redemption and contingent conversion rights described below).

In determining whether a distribution (other than upon voluntary or involuntary liquidation), by dividend, redemption or other acquisition of shares of stock or otherwise, is permitted under Maryland law with respect to any share of any class or series of our stock, amounts that would be needed, if we were to be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of holders of shares of Series I Preferred Stock will not be added to our total liabilities.

Redemption

The Series I Preferred Stock is not redeemable by us prior to June 30, 2024, except under circumstances where it is necessary to preserve our qualification as a REIT for U.S. federal income tax purposes (please see “Description of Equity Securities—Restrictions on Ownership and Transfer” in this exhibit) and except as described below under “—Special Optional Redemption” upon the occurrence of a Change of Control (as defined herein).

Optional Redemption. On and after June 30, 2024, we may, at our option, upon not less than 30 nor more than 60 days’ notice, redeem the Series I Preferred Stock, in whole or in part, at any time or from time to time, for cash at a redemption price of \$25.00 per share, plus any accumulated and unpaid dividends thereon (whether or not authorized or declared) to, but excluding, the redemption date, without interest.

Special Optional Redemption. Upon the occurrence of a Change of Control (as defined below), we may, at our option, upon not less than 30 nor more than 60 days’ notice, redeem the Series I Preferred Stock, in whole or in part, within 120 days after the first date on which such Change of Control occurred, for cash at a redemption price of \$25.00 per share, plus any accumulated and unpaid dividends thereon (whether or not authorized or declared) to, but excluding, the redemption date. If, prior to the Change of Control Conversion Date (as defined below), we have provided notice of our election to redeem some or all of the shares of Series I Preferred Stock (whether pursuant to our optional redemption right described above under “—Optional Redemption” or this special optional redemption right), the holders of Series I Preferred Stock will not have the Change of Control Conversion Right (as defined below) described below under “—Conversion Rights” with respect to the shares called for redemption.

A “Change of Control” is deemed to occur when, after the original issuance of the Series I Preferred Stock, the following have occurred and are continuing:

- the acquisition by any person, including any syndicate or group deemed to be a “person” under Section 13(d)(3) of the Exchange Act, of beneficial ownership, directly or indirectly, through a purchase, merger or other acquisition transaction or series of purchases, mergers or other acquisition transactions of our stock entitling that person to exercise more than 50% of the total voting power of all our stock entitled to vote generally in the election of our directors (except that such person will be deemed to have beneficial ownership of all securities that such person has the right to acquire, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition); and
- following the closing of any transaction referred to in the bullet point above, neither we nor the acquiring or surviving entity has a class of common securities (or American Depositary Receipts representing such securities) listed on the NYSE, the NYSE American LLC or the Nasdaq Stock Market, or listed or quoted on an exchange or quotation system that is a successor to the NYSE, the NYSE American LLC or the Nasdaq Stock Market.

Redemption Procedures. In the event we elect to redeem Series I Preferred Stock pursuant to our optional redemption right or our special optional redemption right, the notice of redemption will be given to each holder of record of Series I Preferred Stock called for redemption at such holder’s address as it appears on our stock records and will state the following:

- the redemption date;
- the number of shares of Series I Preferred Stock to be redeemed;
- the redemption price;
- the place or places where certificates (if any) for the Series I Preferred Stock are to be surrendered for payment of the redemption price;
- that dividends on the shares to be redeemed will cease to accumulate on the redemption date;
- if applicable, that such redemption is being made in connection with a Change of Control and, in that case, a brief description of the transaction or transactions constituting such Change of Control; and
- if such redemption is being made in connection with a Change of Control, that the holders of the shares of Series I Preferred Stock being so called for redemption will not be able to tender such shares of Series I Preferred Stock for conversion in connection with the Change of Control and that each share of Series I Preferred Stock tendered for conversion that is called, prior to the Change of Control Conversion Date, for redemption will be redeemed on the related date of redemption instead of converted on the Change of Control Conversion Date.

If less than all of the Series I Preferred Stock held by any holder is to be redeemed, the notice given to such holder shall also specify the number of shares of Series I Preferred Stock held by such holder to be redeemed. No failure to give such notice or any defect thereto or in the giving thereof will affect the validity of the proceedings for the redemption of any shares of Series I Preferred Stock, except as to the holder to whom notice was defective or not given.

Holders of shares of Series I Preferred Stock to be redeemed must surrender such shares at the place designated in the notice of redemption and will be entitled to the redemption price and any accumulated and unpaid dividends payable upon the redemption following the surrender.

If notice of redemption of any shares of Series I Preferred Stock has been given and if we have irrevocably set apart for payment the funds necessary for redemption (including any accumulated and unpaid dividends) in trust for the benefit of the holders of the shares of Series I Preferred Stock so called for redemption, then from and after the redemption date (unless we default in providing for the payment of the redemption price plus accumulated and unpaid dividends, if any), dividends will cease to accumulate on those shares of Series I Preferred Stock, those shares of Series I Preferred Stock will no longer be deemed

outstanding and all rights of the holders of those shares will terminate, except the right to receive the redemption price plus accumulated and unpaid dividends, if any, payable upon redemption.

If any redemption date is not a business day, then the redemption price and accumulated and unpaid dividends, if any, payable upon redemption may be paid on the next business day and no interest, additional dividends or other sums will accumulate on the amount payable for the period from and after that redemption date to that next business day.

If less than all of the outstanding shares of Series I Preferred Stock are to be redeemed, the shares of Series I Preferred Stock to be redeemed will be selected pro rata (as nearly as may be practicable without creating fractional shares) or by lot. If such redemption is to be by lot and if, as a result of such redemption, any holder of Series I Preferred Stock would own, or be deemed by virtue of certain attribution provisions of the Code to own, in excess of 9.8% in value or in number of shares (whichever is more restrictive) of any class or series of our stock (including the Series I Preferred Stock), or violate any other restriction or limitation of our stock set forth in our charter, then, except as otherwise provided in our charter, we will redeem the requisite number of shares of Series I Preferred Stock of that holder such that the holder will not own or be deemed by virtue of certain attribution provisions of the Code to own, subsequent to the redemption, in excess of 9.8% in value or in number of shares (whichever is more restrictive) of any class or series of our stock or violate any other restriction or limitation of our stock set forth in our charter. See “—Restrictions on Transfer and Ownership” below and under the heading “Restrictions on Ownership and Transfer” in this exhibit.

Immediately prior to any redemption of Series I Preferred Stock, we will pay, in cash, any accumulated and unpaid dividends to, but excluding, the redemption date, unless a redemption date falls after a dividend record date and prior to the corresponding dividend payment date, in which case each holder of Series I Preferred Stock at the close of business on such dividend record date will be entitled to the dividend payable on such shares on the corresponding dividend payment date notwithstanding the redemption of such shares before such dividend payment date. Except as provided above, we will make no payment or allowance for unpaid dividends, whether or not in arrears, on shares of the Series I Preferred Stock to be redeemed.

Unless full cumulative dividends on all shares of Series I Preferred Stock have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof has been or contemporaneously is set apart for payment for all past Dividend Periods, no shares of Series I Preferred Stock may be redeemed unless all outstanding shares of Series I Preferred Stock are simultaneously redeemed, and we may not purchase or otherwise acquire directly or indirectly any shares of Series I Preferred Stock (except by conversion into or exchange for shares of, or options, warrants or rights to purchase or subscribe for, our common stock or other Junior Stock we may issue or pursuant to a purchase or exchange offer made on the same terms to all holders of Series I Preferred Stock and all Parity Stock); provided, however, that the foregoing will not prevent the redemption, purchase or acquisition by us of shares of Series I Preferred Stock for the purpose of enforcing restrictions on ownership and transfer of our stock contained in our charter, including in order to preserve our qualification as a REIT.

Subject to applicable law, we may purchase shares of Series I Preferred Stock in the open market, by tender or by privately negotiated transactions. Any shares of Series I Preferred Stock that we acquire, by redemption or otherwise, shall be reclassified as authorized but unissued shares of preferred stock, without designation as to class or series, and may thereafter be issued as any class or series of preferred stock.

Conversion Rights

Upon the occurrence of a Change of Control, each holder of Series I Preferred Stock will have the right (unless, prior to the Change of Control Conversion Date, we have provided notice of our election to redeem some or all of the shares of Series I Preferred Stock held by such holder as described above under “—Redemption,” in which case such holder will have the right only with respect to shares of Series I Preferred Stock that are not called for redemption) to convert some or all of the shares of the Series I Preferred Stock

held by such holder (the “Change of Control Conversion Right”) on the Change of Control Conversion Date into a number of shares of our common stock per share of Series I Preferred Stock (the “Common Stock Conversion Consideration”) equal to the lesser of:

- the quotient obtained by dividing (i) the sum of the \$25.00 liquidation preference per share of Series I Preferred Stock, plus any accumulated and unpaid dividends thereon (whether or not authorized or declared) to, but excluding, the Change of Control Conversion Date (unless the Change of Control Conversion Date is after a dividend record date and prior to the corresponding dividend payment date for the Series I Preferred Stock, in which case no additional amount for such accumulated and unpaid dividends to be paid on such dividend payment date will be included in this sum) by (ii) the Common Stock Price, as defined below (such quotient, the “Conversion Rate”); and
- 5.42888, or the “Share Cap,” subject to certain adjustments as described below.

Notwithstanding anything in our charter to the contrary and except as otherwise required by law, the persons who are the holders of record of shares of Series I Preferred Stock at the close of business on a dividend record date will be entitled to receive the dividend payable on the corresponding dividend payment date notwithstanding the conversion of those shares after such dividend record date and on or prior to such dividend payment date and, in such case, the full amount of such dividend will be paid on such dividend payment date to the persons who were the holders of record at the close of business on such dividend record date. Except as provided in this paragraph, we will make no allowance for unpaid dividends that are not in arrears on the shares of Series I Preferred Stock to be converted.

The Share Cap is subject to pro rata adjustments for any share splits (including those effected pursuant to a distribution of our common stock to existing holders of our common stock), subdivisions or combinations (in each case, a “Share Split”) with respect to our common stock as follows: the adjusted Share Cap as the result of a Share Split will be the number of shares of our common stock that is equivalent to the product obtained by multiplying (i) the Share Cap in effect immediately prior to such Share Split by (ii) a fraction, the numerator of which is the number of shares of our common stock outstanding immediately after giving effect to such Share Split and the denominator of which is the number of shares of our common stock outstanding immediately prior to such Share Split.

For the avoidance of doubt, subject to the immediately succeeding paragraph, the aggregate number of shares of our common stock (or equivalent Alternative Conversion Consideration, as applicable) issuable or deliverable, as applicable, in connection with the exercise of the Change of Control Conversion Right will not exceed the product of the Share Cap times the aggregate number of shares of the Series I Preferred Stock issued and outstanding at the Change of Control Conversion Date (or equivalent Alternative Conversion Consideration, as applicable) (the “Exchange Cap”). The Exchange Cap is subject to pro rata adjustments for any Share Splits on the same basis as the corresponding adjustment to the Share Cap.

In the case of a Change of Control pursuant to which our common stock is or will be converted into cash, securities or other property or assets (including any combination thereof) (the “Alternative Form Consideration”), a holder of Series I Preferred Stock will receive upon conversion of such shares of the Series I Preferred Stock the kind and amount of Alternative Form Consideration which such holder would have owned or been entitled to receive upon the Change of Control had such holder held a number of shares of our common stock equal to the Common Stock Conversion Consideration immediately prior to the effective time of the Change of Control (the “Alternative Conversion Consideration”). The Common Stock Conversion Consideration or the Alternative Conversion Consideration, whichever shall be applicable to a Change of Control, is referred to as the “Conversion Consideration.”

If the holders of our common stock have the opportunity to elect the form of consideration to be received in the Change of Control, the Conversion Consideration in respect of such Change of Control will be deemed to be the kind and amount of consideration actually received by holders of a majority of the outstanding shares of our common stock that made or voted for such an election (if electing between two

types of consideration) or holders of a plurality of the outstanding shares of our common stock that made or voted for such an election (if electing between more than two types of consideration), as the case may be, and will be subject to any limitations to which all holders of our common stock are subject, including, without limitation, pro rata reductions applicable to any portion of the consideration payable in such Change of Control.

We will not issue fractional shares of our common stock upon the conversion of the Series I Preferred Stock in connection with a Change of Control. Instead, we will make a cash payment equal to the value of such fractional shares based upon the Common Stock Price used in determining the Common Stock Conversion Consideration for such Change of Control.

Within 15 days following the occurrence of a Change of Control, provided that we have not exercised our right to redeem all shares of Series I Preferred Stock pursuant to the redemption provisions described above, we will provide to holders of Series I Preferred Stock a notice of occurrence of the Change of Control that describes the resulting Change of Control Conversion Right, which notice shall be delivered to the holders of record of the shares of Series I Preferred Stock to their addresses as they appear on our stock records. No failure to give such notice or any defect thereto or in the giving thereof will affect the validity of the proceedings for the conversion of any shares of Series I Preferred Stock except as to the holder to whom notice was defective or not given. This notice will state the following:

- the events constituting the Change of Control;
- the date of the Change of Control;
- the last date on which the holders of Series I Preferred Stock may exercise their Change of Control Conversion Right;
- the method and period for calculating the Common Stock Price;
- the Change of Control Conversion Date;
- that if, prior to the Change of Control Conversion Date, we have provided notice of our election to redeem all or any shares of Series I Preferred Stock, holders of Series I Preferred Stock that are subject to such notice of redemption will not be able to convert the shares of Series I Preferred Stock called for redemption and such shares will be redeemed on the related redemption date, even if such shares have already been tendered for conversion pursuant to the Change of Control Conversion Right;
- if applicable, the type and amount of Alternative Conversion Consideration entitled to be received per share of Series I Preferred Stock;
- the name and address of the paying agent, transfer agent and conversion agent for the Series I Preferred Stock;
- the procedures that the holders of Series I Preferred Stock must follow to exercise the Change of Control Conversion Right (including procedures for surrendering shares of Series I Preferred Stock for conversion through the facilities of a Depositary (as defined below)), including the form of conversion notice to be delivered by such holders as described below; and
- the last date on which holders of Series I Preferred Stock may withdraw shares of Series I Preferred Stock surrendered for conversion and the procedures that such holders must follow to effect such a withdrawal.

Under such circumstances, we also will issue a press release containing such notice for publication on the Wall Street Journal, Business Wire, PR Newswire or Bloomberg Business News (or, if these organizations are not in existence at the time of issuance of the press release, such other news or press organization as is reasonably calculated to broadly disseminate the relevant information to the public), and post a notice on our website (if any), in any event prior to the opening of business on the first business day following any date on which we provide the notice described above to the holders of Series I Preferred Stock.

To exercise the Change of Control Conversion Right, the holders of Series I Preferred Stock will be required to deliver, on or before the close of business on the Change of Control Conversion Date, the certificates (if any) representing the shares of Series I Preferred Stock to be converted, duly endorsed for

transfer (or, in the case of any shares of Series I Preferred Stock held in book-entry form through a Depositary or shares directly registered with the transfer agent therefor, to deliver, on or before the close of business on the Change of Control Conversion Date, the shares of Series I Preferred Stock to be converted through the facilities of such Depositary or through such transfer agent, respectively), together with a written conversion notice in the form provided by us, duly completed, to our transfer agent. The conversion notice must state:

- the relevant Change of Control Conversion Date;
- the number of shares of Series I Preferred Stock to be converted; and
- that the shares of the Series I Preferred Stock are to be converted pursuant to the applicable provisions of the articles supplementary designating the Series I Preferred Stock.

The “Change of Control Conversion Date” is the date the Series I Preferred Stock is to be converted, which will be a business day selected by us that is no fewer than 20 days nor more than 35 days after the date on which we provide the notice described above to the holders of Series I Preferred Stock.

The “Common Stock Price” is (i) if the consideration to be received in the Change of Control by the holders of our common stock is solely cash, the amount of cash consideration per share of our common stock or (ii) if the consideration to be received in the Change of Control by holders of our common stock is other than solely cash (x) the average of the closing sale prices per share of our common stock (or, if no closing sale price is reported, the average of the closing bid and ask prices per share or, if more than one in either case, the average of the average closing bid and the average closing ask prices per share) for the ten consecutive trading days immediately preceding, but not including, the date on which such Change of Control occurred as reported on the principal U.S. securities exchange on which our common stock is then traded, or (y) if our common stock is not then listed for trading on a U.S. securities exchange, the average of the last quoted bid prices for our common stock in the over-the-counter market as reported by OTC Markets Group Inc. or similar organization for the ten consecutive trading days immediately preceding, but not including, the date on which such Change of Control occurred.

Holders of Series I Preferred Stock may withdraw any notice of exercise of a Change of Control Conversion Right (in whole or in part) by a written notice of withdrawal delivered to our transfer agent prior to the close of business on the business day prior to the Change of Control Conversion Date. The notice of withdrawal delivered by any holder must state:

- the number of withdrawn shares of Series I Preferred Stock;
- if certificated shares of Series I Preferred Stock have been surrendered for conversion, the certificate numbers of the withdrawn shares of Series I Preferred Stock; and
- the number of shares of Series I Preferred Stock, if any, which remain subject to the holder’s conversion notice.

Notwithstanding the foregoing, if any shares of Series I Preferred Stock are held in book-entry form through DTC or a similar depository (each, a “Depositary”), the conversion notice and/or the notice of withdrawal, as applicable, must comply with applicable procedures, if any, of the applicable Depositary.

Shares of Series I Preferred Stock as to which the Change of Control Conversion Right has been properly exercised and for which the conversion notice has not been properly withdrawn will be converted into the applicable Conversion Consideration in accordance with the Change of Control Conversion Right on the Change of Control Conversion Date, unless prior to the Change of Control Conversion Date we have provided notice of our election to redeem some or all of the shares of Series I Preferred Stock, as described above under “—Redemption,” in which case only the shares of Series I Preferred Stock properly surrendered for conversion and not properly withdrawn that are not called for redemption will be converted as aforesaid. If we elect to redeem shares of Series I Preferred Stock that would otherwise be converted into the applicable Conversion Consideration on a Change of Control Conversion Date, such shares of Series I Preferred Stock will not be so converted and the holders of such shares will be entitled to receive on the applicable redemption date the redemption price described above under “—Redemption.”

We will deliver all securities, cash and any other property owing upon conversion no later than the third business day following the Change of Control Conversion Date. Notwithstanding the foregoing, the persons entitled to receive any shares of our common stock or other securities delivered on conversion will be deemed to have become the holders of record thereof as of the Change of Control Conversion Date.

In connection with the exercise of any Change of Control Conversion Right, we will comply with all applicable federal and state securities laws and stock exchange rules in connection with any conversion of shares of the Series I Preferred Stock into shares of our common stock or other property. Notwithstanding any other provision of the Series I Preferred Stock, no holder of Series I Preferred Stock will be entitled to convert such shares of the Series I Preferred Stock into shares of our common stock to the extent that receipt of such shares of common stock would cause such holder (or any other person) to violate the applicable restrictions on transfer and ownership of our stock contained in our charter, unless we provide an exemption from this limitation to such holder pursuant to the terms of our charter. Please see the section entitled “Description of Equity Securities—Restrictions on Ownership and Transfer” in this exhibit.

The Change of Control conversion feature may make it more difficult for a third party to acquire us or discourage a party from acquiring us.

Except as provided above in connection with a Change of Control, the Series I Preferred Stock is not convertible into or exchangeable for any other securities or property.

Voting Rights

Holders of Series I Preferred Stock do not have any voting rights, except as set forth below.

Whenever dividends on any shares of Series I Preferred Stock are in arrears for six or more full quarterly Dividend Periods, whether or not consecutive, the number of directors constituting our Board will be automatically increased by two (if not already increased by two by reason of the election of directors by the holders of any other class or series of Parity Stock upon which like voting rights have been conferred and are exercisable) and the holders of Series I Preferred Stock, voting as a single class with holders of the Parity Stock upon which like voting rights have been conferred and are exercisable, will be entitled to vote for the election of those two additional directors at a special meeting called by us at the request of the holders of record of at least 25% of the outstanding shares of Series I Preferred Stock and all other classes or series of Parity Stock upon which like voting rights have been conferred and are exercisable to be held no later than 90 days after our receipt of such request (unless the request is received less than 90 days before the date fixed for the next annual or special meeting of our stockholders, in which case, such vote will be held at the earlier of the next annual or special meeting of the stockholders to the extent permitted by applicable law), and at each subsequent annual meeting until all dividends accumulated on the Series I Preferred Stock for all past Dividend Periods and the then current Dividend Period will have been fully paid. In that case, the right of holders of Series I Preferred Stock to elect any directors will cease and, unless there are other classes or series of Parity Stock upon which like voting rights have been conferred and are exercisable, the term of office of any directors elected by holders of Series I Preferred Stock will immediately terminate and the number of directors constituting the board of directors will be reduced accordingly. For the avoidance of doubt, in no event will the total number of directors elected by holders of Series I Preferred Stock (voting together as a single class with the Parity Stock upon which like voting rights have been conferred and are exercisable) pursuant to these voting rights exceed two. The directors elected by the holders of the Series I Preferred Stock and the holders of the Parity Stock upon which like voting rights have been conferred and are exercisable will be elected by a plurality of the votes cast by the holders of the outstanding shares of Series I Preferred Stock when they have the voting rights described in this paragraph and the Parity Stock upon which like voting rights have been conferred and are exercisable (voting together as a single class) to serve until our next annual meeting of stockholders and until their successors are duly elected and qualify or until such directors’ right to hold the office terminates as described above, whichever occurs earlier.

On each matter on which holders of Series I Preferred Stock are entitled to vote, each share of Series I Preferred Stock will be entitled to one vote, except that when shares of any other class or series of preferred stock we may issue, including the Parity Stock, have the right to vote with the Series I Preferred Stock as a single class on any matter, the Series I Preferred Stock, the Parity Stock and each such other class or series of stock will have one vote for each \$25.00 of liquidation preference (excluding accumulated dividends). If, at any time when the voting rights conferred upon the Series I Preferred Stock are exercisable, any vacancy in the office of a director elected by the holders of the Parity Stock upon which like voting rights have been conferred and are exercisable will occur, then such vacancy may be filled only by the remaining director or by vote of the holders of the outstanding Series I Preferred Stock and any other classes or series of Parity Stock upon which like voting rights have been conferred and are exercisable.

Any director elected by holders of shares of Series I Preferred Stock and any class or series of Parity Stock upon which like voting rights have been conferred and are exercisable may be removed at any time, with or without cause, by the vote of, and may not be removed otherwise than by the vote of, the holders of record of a majority of the outstanding shares of Series I Preferred Stock and any class or series of Parity Stock we may issue when they have the voting rights described above (voting as a single class with all other classes or series of Parity Stock upon which like voting rights have been conferred and are exercisable).

So long as any shares of Series I Preferred Stock remain outstanding, we will not, without the affirmative vote or consent of the holders of at least two-thirds of the shares of Series I Preferred Stock, and Parity Stock upon which like voting rights have been conferred and are exercisable (voting together as a single class), (i) authorize, create, or increase the authorized or issued amount of, any class or series of Senior Stock or reclassify any of our authorized stock into such shares, or create or authorize or issue any obligation or security convertible into or evidencing the right to purchase any such shares or (ii) amend, alter or repeal the provisions of our charter, whether by merger, conversion, consolidation or otherwise, so as to materially and adversely affect any right, preference, privilege or voting power of the Series I Preferred Stock (each, an "Event"); provided, however, with respect to the occurrence of any Event set forth in clause (ii) above, so long as the Series I Preferred Stock remains outstanding with the terms thereof materially unchanged, or the holders of Series I Preferred Stock receive shares of stock or other equity interests with rights, preferences, privileges and voting powers substantially the same as those of the Series I Preferred Stock, taking into account that upon the occurrence of an Event we may not be the successor entity, the occurrence of any such Event will not be deemed to materially and adversely affect the rights, preferences, privileges or voting power of holders of Series I Preferred Stock; and, provided further, that any increase in the amount of the authorized or issued Series I Preferred Stock or the creation or issuance, or any increase in the amounts authorized of any Parity Stock, including the Series D Preferred Stock, Series F Preferred Stock and Series G Preferred Stock, or Junior Stock will not be deemed to materially and adversely affect the rights, preferences, privileges or voting powers of holders of Series I Preferred Stock. Notwithstanding the foregoing, if any amendment, alteration or repeal of any provision of our charter would materially and adversely affect the rights, preferences or privileges of the Series I Preferred Stock disproportionately relative to other classes or series of Parity Stock, including the Series D Preferred Stock, Series F Preferred Stock and Series G Preferred Stock, then the affirmative vote or consent of the holders of at least two-thirds of the outstanding shares of Series I Preferred Stock (voting as a separate class) shall also be required.

The foregoing voting provisions will not apply if, at or prior to the time when the act with respect to which such vote would otherwise be required shall be effected, all outstanding shares of Series I Preferred Stock have been redeemed or called for redemption upon proper notice and sufficient funds have been irrevocably set apart to effect such redemption.

Except as expressly stated in our charter or as may be required by applicable law, Series I Preferred Stock do not have any relative, participating, optional or other special voting rights or powers and the consent of the holders thereof will not be required for the taking of any corporate action. The holders of Series I Preferred Stock have exclusive voting rights on any amendment to our charter that would alter the contract rights, as expressly set forth in the charter, of only the Series I Preferred Stock.

Information Rights

During any period in which we are not subject to Section 13 or 15(d) of the Exchange Act and any shares of Series I Preferred Stock are outstanding, we will use our best efforts to (i) transmit through our website at <http://www.annaly.com> (or other permissible means under the Exchange Act) copies of the Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q that we would have been required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act if we were subject thereto (other than any exhibits that would have been required). We will use our best efforts to provide such reports on our website within 15 days after the respective dates by which we would have been required to file such reports with the SEC if we were subject to Section 13 or 15(d) of the Exchange Act and we were a “non-accelerated filer” within the meaning of the Exchange Act.

Restrictions on Transfer and Ownership

To assist us in qualifying as a REIT, our charter prohibits any person from acquiring or holding, directly or constructively, ownership of 9.8%, in number of shares or value, of each class or series of our outstanding shares. For this purpose the term “ownership” generally means either direct ownership or constructive ownership in accordance with the constructive ownership provisions of Section 544 of the Code, as modified in Section 856(h) of the Code. These provisions may restrict the ability of a holder of Series H Preferred Stock to convert such stock into our common stock as described above under “—Conversion Rights.” Our board of directors may, in its sole discretion, exempt a person from the 9.8% ownership limit under certain circumstances as described under “Description of Equity Securities—Restrictions on Ownership and Transfer” in this exhibit.

For further information regarding restrictions on ownership and transfer of the Series I Preferred Stock, please see the section entitled “Description of Equity Securities—Restrictions on Ownership and Transfer” in this exhibit.

Preemptive Rights

No holders of Series I Preferred Stock, as holders of Series I Preferred Stock, have any preemptive rights to purchase or subscribe for our common stock or any of our other securities.

Book-Entry Procedures

DTC acts as securities depository for the Series I Preferred Stock, which were issued in the form of global securities held in book-entry form. We will not issue certificates to holders of the Series I Preferred Stock for the shares of Series I Preferred Stock that are purchased, unless DTC’s services are discontinued as described below.

Title to book-entry interests in the Series I Preferred Stock will pass by book-entry registration of the transfer within the records of DTC in accordance with its procedures. Book-entry interests in the securities may be transferred within DTC in accordance with procedures established for these purposes by DTC. Each person owning a beneficial interest in shares of the Series I Preferred Stock must rely on the procedures of DTC and the participant through which such person owns its interest to exercise its rights as a holder of the Series I Preferred Stock.

DTC has advised us that it is a limited-purpose trust company organized under the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered under the provisions of Section 17A of the Exchange Act. DTC holds securities that its participants (“Direct Participants”) deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include

securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. Access to the DTC system is also available to others such as securities brokers and dealers, including the underwriters, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The rules applicable to DTC and its Direct and Indirect Participants are on file with the SEC.

When shares of Series I Preferred Stock are purchased within the DTC system, the purchase must be by or through a Direct Participant. The Direct Participant will receive a credit for the Series I Preferred Stock on DTC’s records. Holders of the Series I Preferred Stock will be considered to be the “beneficial owner” of the Series I Preferred Stock. Such beneficial ownership interest will be recorded on the Direct and Indirect Participants’ records, but DTC will have no knowledge of individual ownership. DTC’s records reflect only the identity of the Direct Participants to whose accounts shares of Series I Preferred Stock are credited.

Holders of the Series I Preferred Stock will not receive written confirmation from DTC of the purchase. The Direct or Indirect Participants through whom the Series I Preferred Stock were purchased should send such holders written confirmations providing details of the transactions, as well as periodic statements of the holdings. The Direct and Indirect Participants are responsible for keeping an accurate account of the holdings of their customers.

Transfers of ownership interests held through Direct and Indirect Participants will be accomplished by entries on the books of Direct and Indirect Participants acting on behalf of the beneficial owners.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

We understand that, under DTC’s existing practices, in the event that we request any action of the holders, or an owner of a beneficial interest in a global security, such as a holder of the Series I Preferred Stock, desires to take any action which a holder is entitled to take under our charter (including the articles supplementary designating the Series I Preferred Stock), DTC would authorize the Direct Participants holding the relevant shares to take such action, and those Direct Participants and any Indirect Participants would authorize beneficial owners owning through those Direct and Indirect Participants to take such action or would otherwise act upon the instructions of beneficial owners owning through them.

Any redemption notices with respect to the Series I Preferred Stock will be sent to Cede & Co. If less than all of the outstanding shares of Series I Preferred Stock are being redeemed, DTC will reduce each Direct Participant’s holdings of shares of Series I Preferred Stock in accordance with its procedures.

In those instances where a vote is required, neither DTC nor Cede & Co. itself will consent or vote with respect to the shares of Series I Preferred Stock. Under its usual procedures, DTC would mail an omnibus proxy to us as soon as possible after the record date. The omnibus proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants whose accounts the shares of Series I Preferred Stock are credited to on the record date, which are identified in a listing attached to the omnibus proxy.

Dividends on the Series I Preferred Stock will be made directly to DTC’s nominee (or its successor, if applicable). DTC’s practice is to credit participants’ accounts on the relevant payment date in accordance with their respective holdings shown on DTC’s records unless DTC has reason to believe that it will not receive payment on that payment date.

Payments by Direct and Indirect Participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in

bearer form or registered in “street name.” These payments will be the responsibility of the participant and not of DTC, us or any agent of ours.

DTC may discontinue providing its services as securities depository with respect to the Series I Preferred Stock at any time by giving reasonable notice to us. Additionally, we may decide to discontinue the book-entry only system of transfers with respect to the Series I Preferred Stock. In that event, we will print and deliver certificates in fully registered form for the Series I Preferred Stock. If DTC notifies us that it is unwilling to continue as securities depository, or it is unable to continue or ceases to be a clearing agency registered under the Exchange Act and a successor depository is not appointed by us within 90 days after receiving such notice or becoming aware that DTC is no longer so registered, we will issue the Series I Preferred Stock in definitive form, at our expense, upon registration of transfer of, or in exchange for, such global security.

According to DTC, the foregoing information with respect to DTC has been provided to the financial community for informational purposes only and is not intended to serve as a representation, warranty or contract modification of any kind.

Global Clearance and Settlement Procedures

Secondary market trading among DTC’s Participants will occur in the ordinary way in accordance with DTC’s rules and will be settled in immediately available funds using DTC’s Same-Day Funds Settlement System.

Subsidiaries of Registrant

14SM TT Owner LLC	Delaware
Abingdon PropCo LLC	Delaware
ACREG 12151 Jefferson NL LLC	Delaware
ACREG 3100 South Mall NL LLC	Delaware
ACREG Barclay Square Investment LLC	Delaware
ACREG DLC Holdings LLC	Delaware
ACREG Ellicott Investment LLC	Delaware
ACREG Grand Reserve Investment LLC	Delaware
ACREG Investment Acquisitions LLC	Delaware
ACREG Investment Holdings LLC	Delaware
ACREG Mid-Century Investment LLC	Delaware
ACREG MS Holdings LLC	Delaware
ACREG PA PE I LLC	Delaware
ACREG Pine Creek Investment LLC	Delaware
ACREG PM 4 GP Investor LLC	Delaware
ACREG PM 4 Holdings LLC	Delaware
ACREG PM 4 LP Investor LLC	Delaware
ACREG PM 5 GP Investor LLC	Delaware
ACREG PM 5 LP Investor LLC	Delaware
ACREG PT Holdings LLC	Delaware
ACREG Tops Holdings LLC	Delaware
ACREG Tops Investment LLC	Delaware
ACREG TTX Investment LLC	Delaware
AMCO Holding Management Company LLC	Delaware
AMCO LP Holding Company LP	Delaware
AMCO Manager Holdings LLC	Delaware
AMCO OpCo Holding Company LLC	Delaware
Amherst TK Owner LLC	Delaware
Annaly Bond Holdings, Inc.	Delaware
Annaly Capital Fund Advisors LLC	Delaware
Annaly Capital Management, Inc.	Maryland
Annaly CLO Retention Holder LLC	Delaware
Annaly CLO Seller LLC	Delaware
Annaly Commercial Real Estate Group, Inc.	Maryland
Annaly CRE BC LLC	Delaware
Annaly CRE CS LLC	Delaware
Annaly CRE CS Mezz LLC	Delaware
Annaly CRE CS Parent LLC	Delaware
Annaly CRE FXD Holdings LLC	Delaware
Annaly CRE GS LLC	Delaware
Annaly CRE GS Parent LLC	Delaware
Annaly CRE Holdings LLC	Delaware
Annaly CRE KEYS B Holder LLC	Delaware
Annaly CRE KF07 B Holder LLC	Delaware
Annaly CRE KLH1 B Holder LLC	Delaware

Annaly CRE L LLC	Delaware
Annaly CRE Lender LLC	Delaware
Annaly CRE LLC	Delaware
Annaly CRE MMP B Holder LLC	Delaware
Annaly CRE Oaks Depositor LLC	Delaware
Annaly CRE Seattle B Holder LLC	Delaware
Annaly CRE Sub Holding LLC	Delaware
Annaly CRE TPP LLC	Delaware
Annaly CRE WF LLC	Delaware
Annaly CRE WF Parent LLC	Delaware
Annaly Credit Opportunities Cayman Fund LP	Cayman
Annaly Credit Opportunities GP LLC	Delaware
Annaly Credit Opportunities Ireland Finance Designated Activity Company	Ireland
Annaly Credit Opportunities Ireland ICAV	Ireland
Annaly Credit Opportunities Management LLC	Delaware
Annaly Credit Opportunities Offshore Subsidiary LLC	Delaware
Annaly Credit Opportunities Onshore Fund LP	Delaware
Annaly ESPC JVIA Investment LLC	Delaware
Annaly Healthcare Investments LLC	Delaware
Annaly Management Company LLC	Delaware
Annaly Middle Market Lending LLC	Delaware
Annaly MML Funding II LLC	Delaware
Annaly MML Funding III LLC	Delaware
Annaly MML Funding LLC	Delaware
Annaly Net Lease Holdings LLC	Delaware
Annaly NVTs JVIB Investment LLC	Delaware
Annaly Resi-Credit Fund LP	Delaware
Annaly Resi-Credit GP LLC	Delaware
Annaly Social Impact LLC	Delaware
Annaly Sub REIT Parent LLC	Delaware
Annaly Sub REIT, Inc.	Maryland
Annaly TRS, Inc.	Delaware
Arcola Securities, Inc.	Maryland
ASRP Member LLC	Delaware
ASRP MM LLC	Delaware
Barclay Square Owner LLC	Delaware
Barclay Square Venture LLC	Delaware
Beach Improvements Owner LLC	Delaware
BRGA Property Venture, LLC	Delaware
BRGA Tenant Venture, LLC	Delaware
Carriage Hill PropCo LLC	Delaware
CCR PropCo LLC	Delaware
Chase City PropCo LLC	Delaware
Cheektowaga TK Owner LLC	Delaware
CHI Autumn Grace LLC	Delaware
CHI DSL Master Tenant Venture, LLC	Delaware
CHI Javelin Allen LLC	Delaware
CHI Javelin Denison LLC	Delaware
CHI Javelin Frisco LLC	Delaware

CHI Javelin Vista Ridge LLC	Delaware
CHI Javelin Winters Park LLC	Delaware
CHI Kaukauna LLC	Delaware
CHI Mankato LLC	Delaware
CHI Meridian LLC	Delaware
CHI Trace Venture Member, LLC	Delaware
CHI Trace Venture, LLC	Delaware
CHI Water's Edge LLC	Delaware
Chillicothe TK Owner II LLC	Delaware
Chillicothe TK Owner LLC	Delaware
Community Investment Impact Fund II, LLC	Delaware
Community Investment Impact Fund, LLC	Delaware
CreXuS NV Holdings 1 LLC	Delaware
CreXus S Holdings (Holding Co) LLC	Delaware
Cross Timbers TT Owner LLC	Delaware
Crossroads Improvements Owner LLC	Delaware
Ellicott Owner LLC	Delaware
Ellicott Venture LLC	Delaware
Fayette Place Improvements Owner LLC	Delaware
Flower Mound TT Owner LLC	Delaware
Gainesville PropCo LLC	Delaware
Grand Reserve Borrower, LLC	Delaware
Grand Reserve Venture, LLC	Delaware
Hatteras Financial Corp.	Maryland
Heritage Heights TT Owner LLC	Delaware
HG TT Owner LLC	Delaware
Highlands TT Owner LLC	Delaware
Irondequoit TK Owner LLC	Delaware
Jamestown TK Owner LLC	Delaware
Josey Oaks TT Owner LLC	Delaware
Lee PropCo LLC	Delaware
LeRoy TK Owner LLC	Delaware
Loganville TK Owner LLC	Delaware
Mahopac Improvements Owner LLC	Delaware
Manassas PropCo LLC	Delaware
Mid-Century Holdings, LLC	Delaware
Mid-Century Joint Member, LLC	Delaware
Mid-Valley Improvements Owner LLC	Delaware
Mountain 2013, LLC	Delaware
Mountain Merger Sub Corporation	Maryland
NLY 2014-FL1 Depositor LLC	Delaware
NLY 2019-FL2 Co-Issuer LLC	Delaware
NLY 2019-FL2 Issuer Ltd.	Cayman
OBX 2018-1 Trust	Delaware
OBX 2018-EXP1 Trust	Delaware
OBX 2018-EXP2 Trust	Delaware
OBX 2019-EXP1 Trust	Delaware
OBX 2019-EXP2 Trust	Delaware
OBX 2019-INV1 Trust	Delaware

OBX MBS Fund LP	Delaware
Onshore Loan Aggregation LLC	Delaware
Onslow Bay Financial LLC	North Carolina
Onslow Bay Funding LLC	Delaware
Onslow Bay Mortgage Loan Trust 2015-1	Delaware
Ontario TK Owner LLC	Delaware
OPW Property Company LLC	Delaware
Orchard Park TK Owner LLC	Delaware
Park West TT Owner LLC	Delaware
Penfield TK Owner LLC	Delaware
Pine Creek Owner LLC	Delaware
Pine Creek Venture LLC	Delaware
Pingora MSR JV Feeder I-B, LP	Delaware
Residential Credit Solutions, Inc.	Delaware
Pingora MSR JV I-A, LP	Delaware
Pingora MSR JV I-B, LP	Delaware
Radford PropCo LLC	Delaware
Radford Property II LLC	Delaware
River View PropCo LLC	Delaware
SBSG Property Company, LLC	Delaware
SRSB Property Company, LLC	Delaware
TK11 Holdings LLC	Delaware
TK11 Venture LLC	Delaware
Trace Property Venture, LLC	Delaware
Trace Tenant Venture, LLC	Delaware
Truman Insurance Company LLC	Missouri
TTTX Venture LLC	Delaware
University Place Improvements Owner LLC	Delaware
VS HoldCo LLC	Delaware
VS Northview LLC	Delaware
Warsaw TK Owner LLC	Delaware
WKC Property Venture, LLC	Delaware
WKC Tenant Venture, LLC	Delaware
Woodlands PropCo LLC	Delaware

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements No. 333-229489 and No. 333-222134 on Form S-3 and Registration Statements No. 333-169923 and No. 333-211140 on Form S-8 of our reports dated February 13, 2020, with respect to the consolidated financial statements of Annaly Capital Management, Inc. and Subsidiaries and the effectiveness of internal control over financial reporting of Annaly Capital Management, Inc. and Subsidiaries included in this Annual Report (Form 10-K) of Annaly Capital Management, Inc. and Subsidiaries for the year ended December 31, 2019.

/s/ Ernst and Young LLP

New York, NY
February 13, 2020

CERTIFICATIONS

I, Glenn A. Votek, certify that:

1. I have reviewed this annual report on Form 10-K of Annaly Capital Management, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 13, 2020

/s/ Glenn A. Votek

Interim Chief Executive Officer and President (Principal Executive Officer)

CERTIFICATIONS

I, Serena Wolfe, certify that:

1. I have reviewed this annual report on Form 10-K of Annaly Capital Management, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 13, 2020

/s/ Serena Wolfe

Chief Financial Officer (Principal Financial Officer)

ANNALY CAPITAL MANAGEMENT, INC.
1211 AVENUE OF THE AMERICAS
NEW YORK, NEW YORK 10036

CERTIFICATION
PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002, 18 U.S.C. SECTION 1350

In connection with the annual report on Form 10-K of Annaly Capital Management, Inc. (the "Company") for the year ended December 31, 2019 to be filed with the Securities and Exchange Commission on or about the date hereof (the "Report"), I, Glenn A. Votek, Interim Chief Executive Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates of, and for the periods covered by, the Report.

It is not intended that this statement be deemed to be filed for purposes of the Securities Exchange Act of 1934.

/s/ Glenn A. Votek

Glenn A. Votek

Interim Chief Executive Officer and President (Principal Executive Officer)

February 13, 2020

ANNALY CAPITAL MANAGEMENT, INC.
1211 AVENUE OF THE AMERICAS
NEW YORK, NEW YORK 10036

CERTIFICATION
PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002, 18 U.S.C. SECTION 1350

In connection with the annual report on Form 10-K of Annaly Capital Management, Inc. (the "Company") for the year ended December 31, 2019 to be filed with the Securities and Exchange Commission on or about the date hereof (the "Report"), I, Serena Wolfe, Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates of, and for the periods covered by, the Report.

It is not intended that this statement be deemed to be filed for purposes of the Securities Exchange Act of 1934.

/s/ Serena Wolfe
Serena Wolfe
Chief Financial Officer (Principal Financial Officer)
February 13, 2020