ANNALY[SM]

2014 ANNUAL REPORT

DEAR FELLOW SHAREHOLDERS,

The past year has strongly supported the old saying "May you live in interesting times." As our shareholders know, we invest a large portion of our capital in the most liquid assets in the world, in fact, the very same assets that have been the favored tool of monetary policy for the past five years. As I have stated many times on earnings calls, we look forward to the end of our Central Banks overarching presence in the marketplace and all the opportunities it will bring. However, I thought it would be instructive to summarize some of the absurd statistics that have resulted from global monetary policies.

- Since the collapse of Lehman Brothers in 2008 there have been approximately 550 global central bank rate cuts, the equivalent of one every three business days.[1]
- The Federal Reserve's monetary base represents roughly 25% of U.S. GDP.[1]
- Global central bank assets at $22.5 trillion represent a sum larger than the combined GDPs of the U.S. and Japan.[1]
- In its 300 years of history, the Bank of England's base rate has never been lower than the current .50% it is today.[1]
- Approximately 83% of the world's equity market capitalization is supported by zero interest rate policies.[1]
- Approximately 52% of global government debt is yielding 0% or less.[1]
- Six of the G7 countries have 10 year sovereign bonds trading at record low yields, with US Treasury bond yields just slightly higher.[2]
- Nestle, in a first for a private corporation, saw its longer term debt trade at a negative yield to investors.[1]

We are living in a world where liquidity is abundant and real, as opposed to the financially engineered pre-crisis kind that proved to be quite fragile. As a result, investment returns are slim and compensation for risk taking is at an all-time low. This lack of return does not discriminate. It impacts global fixed income investors, corporate leaders looking for the next region in which to commit capital and our future capital providers—savers. For large pension funds that need to meet future obligations and are expecting a 7.5% return to help them do it, the current market offerings fall well short of that goal. For corporate America, share buybacks have been the investment of choice at the expense of expenditures on plants & equipment, research & development or long-term capital projects that could lead to higher paying jobs.

(1) Source: BofA Merrill Lynch Global Investment Strategy.
(2) Source: Bloomberg, OECD.

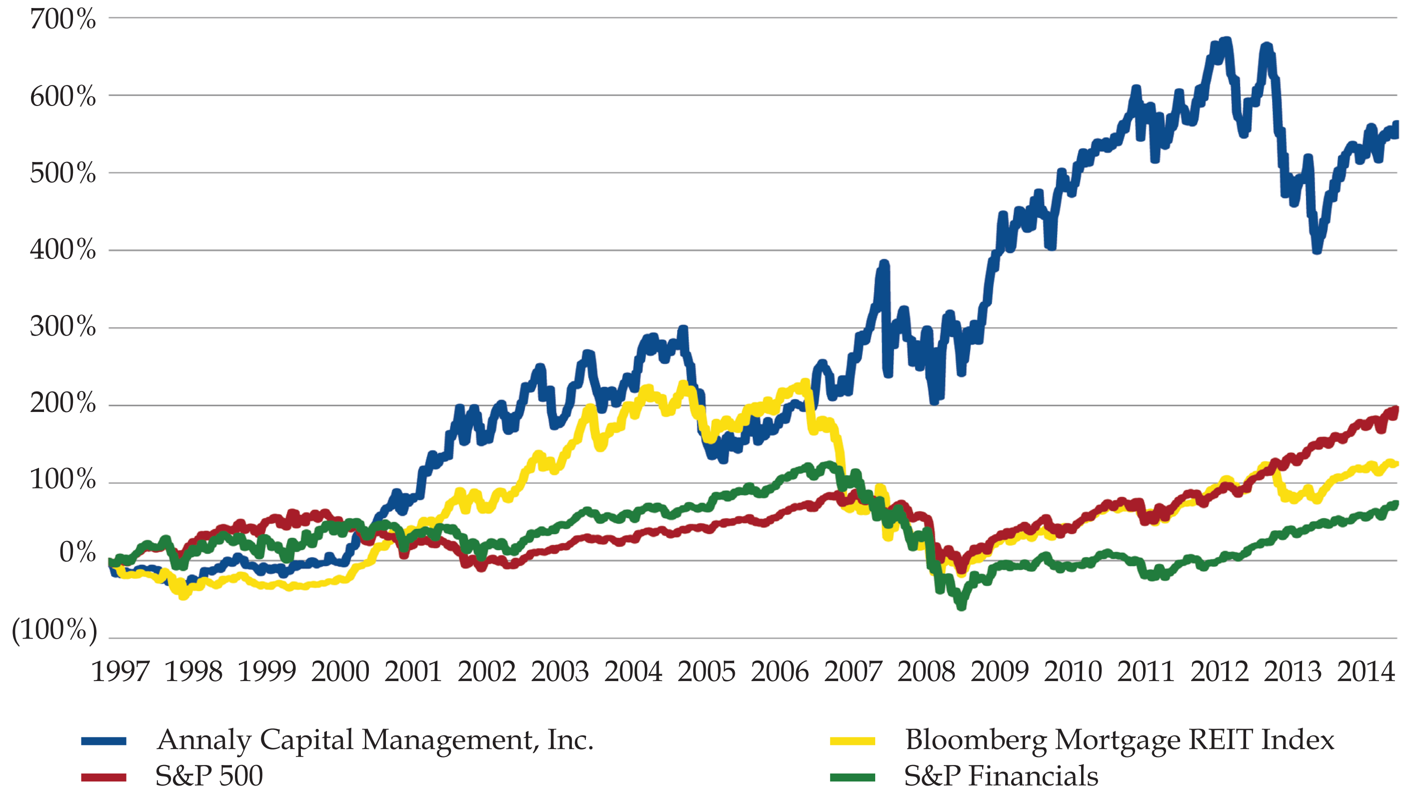
I mention these conditions because I think it's important for our shareholders to understand the world in which this management team is operating. Yet, irrespective of the strength in the equity markets and lack of return in the debt markets, Annaly Capital Management still managed to outperform the S&P 500 Index by a wide margin in 2014. In a world of microscopic yields, we are happy to be able to deliver double digit yielding cash dividends to our shareholders. I am incredibly proud of my management team who, under less than ideal circumstances, continue to deliver shareholder value while also maintaining a fairly conservative and opportunistic posture. We look forward to doing it again in 2015 and beyond.

In closing, I would like to thank our Board of Directors for their ongoing commitment to this great company, you—the shareholders for your continued interest and ownership of our company and finally, all the employees who help make my job that much easier in this unique environment.

SINCERELY,

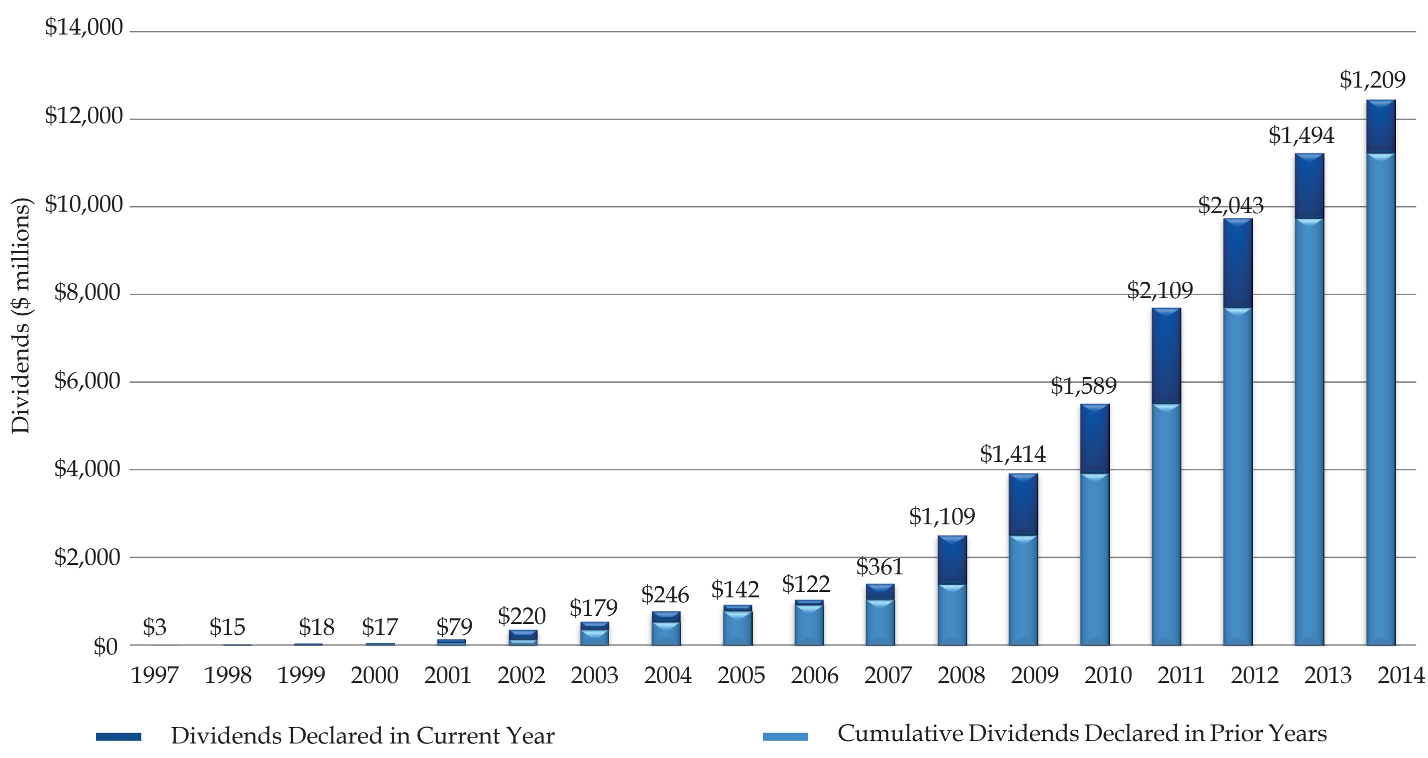
Wellington J. Denahan
Chairman and Chief Executive Officer
March 17, 2015

550% CUMULATIVE TOTAL RETURN SINCE INCEPTION IN 1997



Source: Bloomberg, weekly, October 10, 1997 through December 31, 2014.

SINCE 1997, ANNALY HAS PAID OVER $12 BILLION IN DIVIDENDS TO SHAREHOLDERS



OUR BUSINESS MODEL

We are a leading mortgage real estate investment trust (REIT) that is externally managed by Annaly Management Company LLC (our Manager). Our common stock is listed on the New York Stock Exchange under the ticker symbol "NLY". Since our founding in 1997, we have strived to generate net income for distribution to our shareholders through the prudent selection and management of our investments. Over this 18 year period, we have paid cumulative dividends exceeding $12 billion. As a requirement for maintaining REIT status, we distribute to shareholders aggregate dividends equaling at least 90% of our REIT taxable income for each taxable year.

Our operating income is primarily comprised of the following:

» Economic net interest income[(1)]: represents interest income earned on our portfolio investments, less interest expense paid for borrowings and hedging

» Other income: primarily represents gains and losses on assets and other instruments

Within the confines of our acceptable risk parameters, we target real estate related investments consistent with REIT requirements. As a REIT we are required to meet certain asset and income tests including the following:

» Invest at least 75% of our total assets in real estate assets

» Derive at least 75% of our gross income from real estate related sources

» Derive at least 95% of our gross income from the above mentioned real estate related sources, as well as other "passive" forms of income such as dividends and interest from non-real estate sources

Our objective is to generate attractive 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 the Investment Company Act of 1940; and

» The capital requirements associated with the purchase and financing of the asset.

We believe that our business objectives are supported by our size and conservative financial posture, the extensive experience of our Manager's employees, a comprehensive risk management approach, the availability of financing sources, our corporate structure and our cost efficiencies.

(1) Economic net interest income is a Non-GAAP financial measure that is composed of GAAP net interest income adjusted for realized gains or losses on interest rate swaps.

OUR INVESTMENT STRATEGY

We own a portfolio of real estate related investments, including mortgage pass-through certificates, collateralized mortgage obligations (CMOs), Agency callable debentures, other securities representing interests in or obligations backed by pools of mortgage loans, commercial real estate assets and corporate debt. Our principal business objective is to generate net income for distribution to our stockholders from our investments. We use our capital coupled with borrowed funds to invest in real estate related investments, earning the spread between the yield on our assets and the cost of our borrowings and hedges. Under our investment policy, at least 75% of our total assets are comprised of high-quality mortgage-backed securities and short-term investments. As part of our current diversification strategy, we may allocate up to 25% of our stockholders' equity to assets other than Agency mortgage-backed securities. Fundamentally, we will only engage in risk activities that are expected to enhance value for our stockholders based on our core expertise. Our activities focus on capital preservation and income generation through proactive portfolio management, supported by a conservative liquidity and leverage posture.

Our investment strategy is driven by prudent asset selection and capital allocation to achieve attractive risk adjusted returns. Our investment strategy involves our traditional investment in Agency mortgage-backed securities (MBS) coupled with investments in more credit focused asset classes, most notably commercial real estate. We have built a strong and flexible operating platform to support our investment strategy that can be efficiently leveraged as the portfolio expands. This focus represents a key step forward in our strategic evolution.

The commercial real estate expansion is a natural extension of our broad asset management expertise. We sponsored and managed a publicly-traded commercial mortgage REIT formerly known as CreXus Investment Corp. (CreXus). We later acquired CreXus during the second quarter of 2013 and renamed it Annaly Commercial Real Estate Group (ACREG).

ACREG is a fully integrated commercial real estate lending and investing platform with a $1.7 billion real estate portfolio as of December 31, 2014. ACREG specializes in originating and acquiring commercial real estate debt including commercial mortgage loans, commercial mortgage-backed securities, B-notes, mezzanine loans, preferred equity and other commercial real estate-related debt investments. We also acquire real property for current cash flow, long-term appreciation and earnings growth. We invest in a variety of property types across primary, secondary and tertiary markets nationwide.

We believe we are uniquely positioned to efficiently navigate through a variety of market environments via multiple investment alternatives.

OUR RISK FRAMEWORK

Risk is at the core of our business activities, and the effective management of risk is critical to our success. Risk management starts with our Board of Directors (Board) and executive management team, and is supported through a comprehensive governance framework including both Board and management risk committees. The objective of our risk management framework is to measure, monitor and manage the key risks to which we are subject. Our risk management framework is comprehensive in approach and designed to have a holistic view of risk. We have created a strong and collaborative risk culture focused on awareness to ensure that key risks are understood and managed.

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

The risks managed by our management risk committees are described below:

» **Liquidity Risk**: Risk to earnings, capital or business arising from our inability to meet our obligations when they come due without incurring material losses due to the 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 from changes in market variables, such as interest rates, which affect the values of invested securities and other investment instruments.

» **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. This risk is present in lending, investing, funding and hedging activities.

» **Operational Risk**: Risk to earnings, capital, reputation or business arising from inadequate or failed internal processes or systems, human factors or external events. Model risk, the risk of potential errors with a model's results due to uncertainty in model parameters and inappropriate methodologies used, is included in operational risk.

» **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.

The key risk parameters we use to guide our risk management activities are described below:

» **Portfolio Composition**: We will maintain a high quality, diversified asset portfolio.

» **Leverage**: We will operate at a debt-to-equity ratio no greater than 12:1.

» **Capital Buffer**: We will maintain an excess capital buffer of unencumbered assets, of which at least 25% will be invested in AAA rated or better investments.

» **Interest Rate Risk**: We seek to manage interest rate risk to protect the portfolio from adverse rate movements.

» **Hedging**: We seek to hedge our risks targeting both income and capital preservation.

» **Capital Preservation:** Protection of capital is paramount, even if short term earnings may suffer.

» **Compliance:** We will comply with regulatory requirements needed to maintain our REIT status and our exemption from registration under the Investment Company Act.

CORPORATE GOVERNANCE

Our primary corporate objective is to create long term value for our shareholders while striving to foster a culture that values and rewards high ethical standards and integrity. Our Board is charged with the active guidance and oversight of our corporate governance system, including selection of an effective management team, overseeing our business strategy and related performance, and ensuring shareholder value is both created, through business performance, and protected, through adequate internal controls.

Our Board is comprised of seven independent directors and two non-independent directors. Each of our Board committees is solely comprised of independent directors. We have appointed a lead independent director to facilitate communication between the Board, management and major shareholders and perform such duties and responsibilities as the Board may determine.

OUR BOARD OF DIRECTORS/GOVERNANCE COMMITTEE MEMBERSHIP

Wellington J. Denahan: Chairman and Chief Executive Officer

Kevin G. Keyes: President

INDEPENDENT DIRECTORS

Francine J. Bovich: Former Managing Director, Morgan Stanley Investment Management
Audit Committee

Kevin P. Brady: Chief Executive Officer, ARMtech, LLC
Audit Committee Chair
Nominating/Corporate Governance Committee
Risk Committee

Jonathan D. Green: Former Vice Chairman, The Rockefeller Group
Lead Independent Director
Risk Committee Chair
Compensation Committee

Michael E. Haylon: Managing Director, Conning Asset Management
Audit Committee
Risk Committee

E. Wayne Nordberg: Chairman, Hollow Brook Wealth Management, LLC
Nominating/Corporate Governance Committee Chair
Compensation Committee

John H. Schaefer: Former President and Chief Operating Officer, Morgan Stanley Global Wealth Management
Audit Committee
Compensation Committee
Risk Committee

Donnell A. Segalas: Chief Executive Officer and Managing Partner, Pinnacle Asset Management, L.P.
Compensation Committee Chair
Nominating/Corporate Governance Committee

SAFE HARBOR NOTICE

Certain statements contained in this annual report may not be based on historical facts and are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements, which are based on various assumptions (some of which are beyond our control), 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.

No forward-looking statements can be guaranteed and actual future results may vary materially and we caution you not to place undue reliance on these forward-looking statements. For a discussion of the risks and uncertainties which could cause actual results to differ from those contained in the forward-looking statements, please see the information within the section titled "Risk Factors" of Item 1A described in our annual report on Form 10-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 except as required by law.

ANNALY®

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

FORM 10-K

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

FOR THE FISCAL YEAR ENDED: DECEMBER 31, 2014

OR

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

FOR THE TRANSITION PERIOD FROM _______________ TO _________________

COMMISSION FILE NUMBER: 1-13447

ANNALY CAPITAL MANAGEMENT, INC.

(Exact Name of Registrant as Specified in its Charter)

MARYLAND	22-3479661
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
1211 AVENUE OF THE AMERICAS NEW YORK, NEW YORK	10036
(Address of principal executive offices)	(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	Name of Each Exchange on Which Registered
Common Stock, par value $.01 per share	New York Stock Exchange
7.875% Series A Cumulative Redeemable Preferred Stock	New York Stock Exchange
7.625% Series C Cumulative Redeemable Preferred Stock	New York Stock Exchange
7.50% Series D Cumulative Redeemable Preferred Stock	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 and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☑   No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.   ☐

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

Large accelerated filer ☑   Accelerated filer ☐   Non-accelerated filer ☐ (Do not check if a smaller reporting company)   Smaller reporting company ☐

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

At June 30, 2014, the aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately $10.8 billion.

The number of shares of the Registrant's Common Stock outstanding on February 20, 2015 was 947,675,799.

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, 2014. Portions of such proxy statement are incorporated by reference into Part III of this Form 10-K.

ANNALY CAPITAL MANAGEMENT, INC.
2014 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 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 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.

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Item 1. Business

Business Overview

We are a leading mortgage real estate investment trust (or REIT) that is externally managed by Annaly Management Company LLC (or Manager). Our common stock is listed on the New York Stock Exchange under the ticker symbol "NLY". Since our founding in 1997, we have strived to generate net income for distribution to our stockholders through the prudent selection and management of our investments. We own a portfolio of real estate related investments. We use our capital coupled with borrowed funds to invest in real estate related investments, earning the spread between the yield on our assets and the cost of our borrowings.

Our business operations are primarily comprised of the following:

Business Operations	Year Formed	Description
Annaly, the parent company (NYSE: NLY)	1997	Invests primarily in various types of Agency mortgage-backed securities and related derivatives to hedge these investments.
Annaly Commercial Real Estate Group, Inc. (ACREG)	2009	Wholly-owned subsidiary that was acquired during the second quarter of 2013 and specializes in acquiring, financing and managing commercial mortgage loans and other commercial real estate debt, commercial mortgage-backed securities and other commercial real estate-related assets.
RCap Securities, Inc. (RCap)	2008	Wholly-owned subsidiary that operates as a broker-dealer, and is a member of the Financial Industry Regulatory Authority (or FINRA).
Fixed Income Discount Advisory Company (FIDAC)	1994	Wholly-owned subsidiary that operates as a SEC Registered Investment Advisor and manages an affiliated REIT for which it earns fee income.
Annaly Middle Market Lending LLC (MML)	2010	Wholly-owned subsidiary that engages in corporate middle market lending transactions.
Shannon Funding LLC (Shannon)	2010	Wholly-owned subsidiary that acquires residential mortgage loans and provides warehouse financing to residential mortgage originators in the United States.

We believe that our business objectives are supported by our size and conservative financial posture relative to the industry, the extensive experience of our Manager's employees, a comprehensive risk management approach, the availability and diversification of financing sources, our corporate structure and our cost efficiencies.

Investment Strategy

We own a portfolio of real estate related investments, including mortgage pass-through certificates, collateralized mortgage obligations (CMOs), Agency callable debentures, other securities representing interests in or obligations backed by pools of mortgage loans, commercial real estate assets and corporate debt. Our principal business objective is to generate net income for distribution to our stockholders from our investments. Under our investment policy, at least 75% of our total assets are comprised of high-quality mortgage-backed securities and short-term investments. High quality securities are:

- rated within one of the two highest rating categories by at least one of the nationally recognized rating agencies;
- unrated but are guaranteed by the United States government or by an agency of the United States government; or
- unrated but we determine them to be of comparable quality to high-quality rated mortgage-backed securities.

The remainder of our assets may generally consist of other qualified REIT real estate assets. In addition,

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we may directly or indirectly invest part of our assets in other types of securities, including, unrated debt and equity securities and derivative instruments, to the extent consistent with our REIT qualification requirements.

We may acquire Agency mortgage-backed securities backed by single-family residential mortgage loans as well as securities backed by loans on multi-family, commercial or other real estate related properties. As part of our current diversification strategy, we may allocate up to 25% of our stockholders' equity to assets other than Agency mortgage-backed securities.

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

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

Risk Parameter	Description
Portfolio composition	We will maintain a high quality asset portfolio with (1) at least 75% of the portfolio to be high quality mortgage-backed securities and short term investments (equivalency rating of AA+ or better) and (2) an aggregate weighted average equivalency rating of single "A" or better.
Leverage	We will operate at a debt-to-equity ratio no greater than 12:1.
Capital buffer	We will seek to maintain an excess capital buffer, of which at least 25% will be invested in AAA rated mortgage-backed securities (or assets of similar or better liquidity characteristics), to meet the liquidity needs of the firm.
Interest rate risk	We will seek to manage interest rate risk to protect the portfolio from adverse rate movements.
Hedging	We will use swaps and other derivatives to hedge market risk, targeting both income and capital preservation.
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 of directors has reviewed and approved the investment and operating policies and strategies established by our Manager and set forth in this Form 10-K. The board of directors has the power to modify or waive these policies and strategies without the consent of the stockholders to the extent that the board of directors determines that the modification or waiver is in the best interests of our stockholders. Among other factors, developments in the market which affect our policies and strategies or which change our assessment of the market may cause our board of directors 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 by offering our debt or equity securities in exchange for the assets.

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 the Investment Company Act of 1940; and
- The capital requirements associated with the purchase and financing of the asset.

We target the purchase and sale of the following assets 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.

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Targeted Asset Class	Description
Agency mortgage-backed securities	Our primary investments consist of Agency pass-through certificates, CMOs issued or guaranteed by Freddie Mac, Fannie Mae or Ginnie Mae, interest-only securities and inverse floaters. These securities are backed by single-family or multi-family residences with loan maturities typically ranging from 15 to 40 years and may have fixed or floating coupons.
To-be-announced forward contracts (or TBAs)	We purchase and sell TBAs which are forward contracts for Agency mortgage-backed securities. TBA contracts specify a few basic characteristics of the agency mortgage-backed securities, such as the coupon rate, the issuer, and the approximate face value of the bonds to be delivered, with the actual bonds to be delivered only identified shortly before the TBA settlement date.
Agency debentures	We invest in debt issued by Freddie Mac, Fannie Mae or the Federal Home Loan Banks. These debentures are not backed by collateral, but by the creditworthiness of the issuer.
Commercial real estate	Through our subsidiary ACREG, we originate and acquire commercial real estate debt including commercial mortgage loans, commercial mortgage-backed securities, B-notes, mezzanine loans, preferred equity and other commercial real estate-related debt investments. We also acquire real property for current cash flow, long-term appreciation and earnings growth. In implementing this strategy, we continually evaluate potential acquisition opportunities. These acquisitions may come through joint venture interests or from other equity investments. Although we continuously review our acquisition pipeline, there is not a specific metric that we apply to acquisitions that are under consideration, and our analysis may vary based on property type, transaction structure and other factors.
Other mortgage related investments	On a limited basis we may invest in other mortgage related investments including: investments in individual residential loans, pools of loans, single-family and multi-family privately-issued certificates that are not issued by one of the Agencies, including Agency risk sharing transactions issued by Fannie Mae and Freddie Mac and similarly structured transactions arranged by third party market participants.
Corporate debt	Through our subsidiary MML, we invest a small percentage of our assets directly in the ownership of corporate loans for middle market companies.

We generally hold assets we acquire until maturity. 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.

Our Portfolio

Our portfolio composition as of December 31, 2014 and 2013 was as follows**:**

Asset Portfolio (using balance sheet values)

Category	2014	2013
Agency mortgage-backed securities(1)	96.2%	93.7%
Agency debentures	1.6%	4.0%
Commercial real estate debt and equity investments(2)	2.0%	2.1%
Other mortgage-backed-securities	0.0%	0.0%
Corporate debt, held for investment	0.2%	0.2%

(1) Includes TBAs held for delivery.

(2) Net of unamortized origination fees.

Capital Structure

Our capital structure is designed to offer an efficient compliment 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. We utilize a mix of debt and equity funding. Debt funding may include the use of repurchase agreements, loans, securitizations, participations sold, lines of credit, asset backed commercial paper conduits, corporate bond issuance, or other liabilities. Equity capital primarily consists of common and preferred stock.

We finance our Agency mortgage-backed securities with repurchase agreements. We enter into repurchase agreements primarily with national 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. We seek to diversify our exposure and limit concentrations by entering into repurchase agreements with multiple counterparties. At December 31, 2014, we had $71.4 billion of repurchase agreements outstanding.

Our borrowings pursuant to repurchase transactions have maturities that range from overnight to greater than four years. While shorter term agreements generally have lower interest rates, they increase liquidity risk. To reduce our liquidity risk we maintain a laddered approach to our repurchase agreements and a conservative weighted average days to maturity. As of December 31, 2014, the weighted average days to maturity was 141 days.

Equity capital is made up primarily of common stock. It also consists of preferred stock and may in the future include the use of other equity capital issuance.

We generally expect to maintain a ratio of debt-to-equity of no greater than 12:1. 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 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. Since the financial crisis beginning in 2007, we have maintained a debt-to-equity ratio of below 8:1, which is generally lower than our debt-to-equity ratio had been prior to 2007. For purposes of calculating this ratio, our debt is equal to our repurchase agreements, convertible senior notes, securitized debt of consolidated VIE, loan participation sold and mortgages payable (which are non-recourse to us, subject to customary carveouts) as presented on our Consolidated Statements of Financial Condition.

Our target debt-to-equity ratio is determined under our capital management policy. Should our actual debt-to-equity ratio increase above the target level due to asset acquisition or market value fluctuations in assets, we would cease to acquire new assets. Our management would, at that time, present a plan to our board of directors to return to our target debt-to-equity ratio.

The following table presents our debt-to-equity and capital at December 31, 2014 and 2013.

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	2014	2013
Debt-to-equity ratio	5.4:1	5.0:1
Capital ratio	15.1%	15.1%

Risk Management

Risk is a natural element of the business and related activities that we conduct. Effective risk management is of critical importance to the success of the firm. The objective of our risk management framework is to measure, monitor and manage 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 Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Management Agreement

We have entered into a management agreement with the Manager pursuant to which our management is conducted by the Manager through the authority delegated to it in the Management Agreement and pursuant to the policies established by our board of directors. The management agreement was effective as of July 1, 2013 and applicable for the entire 2013 calendar year and was amended on November 5, 2014 (the management agreement, as amended, is referred to as "Management Agreement").

Pursuant to the terms of the Management Agreement, we pay the Manager a monthly management fee in an amount equal to 1/12th of 1.05% of our stockholders' equity, as defined in the Management Agreement, for its management services.

The Management Agreement provides for a two year term ending December 31, 2016 with automatic two-year renewals unless at least two-thirds of our independent directors or the holders of a majority of our outstanding shares of common stock elect to terminate the agreement in their sole discretion and 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. We must designate a date not less than one year from the date of the notice on which the Management Agreement will terminate. 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 one year 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.

The Management Agreement may be amended or modified by agreement between us and the Manager. There is no termination fee for a termination of the Management Agreement by either us or the Manager.

Executive Officers

Our executive officers are provided and compensated by our Manager. The following table sets forth certain information as of February 25, 2015 concerning our executive officers:

Name	Age	Title
Wellington J. Denahan	51	Chairman of the Board and Chief Executive Officer
Kevin G. Keyes	47	President and Director
Glenn A. Votek	56	Chief Financial Officer
R. Nicholas Singh	56	Chief Legal Officer and Secretary

Wellington J. Denahan is Chairman of the Board and Chief Executive Officer of Annaly. Ms. Denahan was appointed Chairman of the Board and Chief Executive Officer of Annaly in November 2012. Previously, Ms. Denahan was appointed to serve as Co-Chief Executive Officer of Annaly in October 2012. Ms. Denahan was elected in December 1996 to serve as Vice Chairman of the Board. Ms. Denahan was Annaly's Chief Operating Officer from January 2006 to October 2012 and Chief Investment Officer from 2000 to November 2012. She was a co-founder of Annaly. Ms. Denahan has a B.A. in Finance from Florida State University.

Kevin G. Keyes is President of Annaly and a member of the board of directors. Prior to being named to his current role, Mr. Keyes served as Chief Strategy

Officer and Head of Capital Markets at Annaly. Mr. Keyes has over 20 years of Capital Markets and Investment Banking experience. He joined Annaly in 2009 from Bank of America Merrill Lynch where he served in various senior management and business origination roles since 2005. Prior to that, Mr. Keyes also worked at Credit Suisse First Boston from 1997 until 2005 in various capital markets roles and Morgan Stanley Dean Witter from 1990 until 1997 in various investment banking positions. Mr. Keyes has a B.A. in Economics and a B.S. in Business Administration (ALPA Program) from the University of Notre Dame.

Glenn A. Votek was appointed to serve as Chief Financial Officer of Annaly and FIDAC in August 2013. Mr. Votek joined Annaly in May 2013 from CIT Group where he was 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.

R. Nicholas Singh is Chief Legal Officer and Secretary of Annaly and FIDAC. Mr. Singh joined Annaly in February 2005. From 2001 until he joined Annaly, he was a partner in the law firm of McKee Nelson LLP. Mr. Singh has a B.A. from Carleton College, a M.A. from Columbia University and a J.D. from American University.

Employees

Effective July 1, 2013, all of Annaly's employees were terminated by us and were hired by the Manager. However, a limited number of employees of our subsidiaries remain as employees of our subsidiaries for regulatory or corporate efficiency reasons. As of December 31, 2014, our subsidiaries employed 25 employees. All compensation expenses associated with the employees of our subsidiaries reduce the management fee. For information about the management, see the discussion in the "Management Agreement" section.

Regulatory Requirements

We have elected and believe that we are organized and have 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 (or the Code). If 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, consist 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.

RCap 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, RCap is required to maintain minimum net capital by FINRA. RCap consistently operates with capital in excess of its regulatory capital requirements as defined by SEC Rule 15c3-1.

The financial services industry has been the subject of intense regulatory scrutiny in recent years. Financial institutions have been subject to increasing regulation and supervision in the U.S. In particular, the Dodd-Frank Act, which was enacted in July 2010, significantly altered the financial regulatory regime within which financial institutions operate. The implications of the Dodd-Frank Act for our business will depend to a large extent on the rules that will be adopted by the Federal Reserve Board, the FDIC, the Securities and Exchange Commission (or SEC), the Commodity and Futures Trading Commission (or CFTC) and other agencies to implement the legislation, as well as the development of market practices and structures under the regime established by the legislation and the implementation of the rules. 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 securities. In acquiring our target assets, we will compete with financial institutions, institutional investors, other lenders, government entities and

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certain other mortgage 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."

Distributions

As a requirement for maintaining REIT status, we will distribute to stockholders aggregate dividends equaling at least 90% of our REIT taxable income for each taxable year. 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.

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 amendments to those reports as soon as reasonably practicable after we electronically file or furnish such materials to the SEC.

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, Risk Committee, Compensation Committee, and Nominating/Corporate Governance Committee, our Corporate Governance Guidelines and our Code of Business Conduct and Ethics governing our directors and officers as well as the employees of our subsidiaries and our Manager. 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. Copies of these reports, proxy and information statements and other information may also be obtained, after paying a duplicating fee, by electronic request at publicinfo@sec.gov, or by writing the SEC's Public Reference Section, 100 F Street, N.E., Washington, D.C. 20549-0102. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

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 Form 10-K. If any of the risks discussed in this 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 Manager is authorized to follow very broad investment guidelines that may be amended from time to time. Our board of directors and management determine all of our significant policies, including our investment, financing 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 ongoing investment in new business strategies and new assets is inherently risky, and could disrupt our ongoing businesses.

To date our total assets have consisted primarily of Agency mortgage-backed securities and Agency debentures which carry an implied or actual "AAA" rating. Nevertheless, pursuant to our investment policy, we have the ability to acquire assets of lower credit quality.

While we remain committed to the Agency market, given the current environment, we believe it is prudent to diversify a portion of our investment portfolio. We have begun investing in new business strategies and assets and expect to continue to do so in the future. We currently may allocate up to 25% of our stockholders' equity to assets other than Agency mortgage-backed securities.

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, and unidentified 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.

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. Our borrowing costs may increase for any of the following reasons:

- short-term interest rates increase;
- the market value of our investments decreases;
- the "haircut" applied to our assets under the repurchase agreements we are party to increases;
- interest rate volatility increases; 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.

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. Additionally, in the event of our bankruptcy, our borrowings, which are generally made under repurchase agreements, may qualify for special treatment under the Bankruptcy Code. This special treatment would allow the lenders under these agreements to avoid the automatic stay provisions of the Bankruptcy Code and to liquidate the collateral under these agreements without delay.

We may exceed our target leverage ratios.

We generally expect to maintain a ratio of debt-to-equity of less than 12:1. However, we are not required to stay below this 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 holdings declines, our leverage ratio would increase. If we increase our debt-to-equity 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.

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. If one or more major market participants fails or otherwise experiences a major liquidity crisis it could negatively impact the marketability of all fixed income securities, including Agency mortgage-backed securities, and this could negatively impact the value of the securities we acquire, thus reducing our net book value. Furthermore, if any of our potential lenders or existing lenders is unwilling or unable to provide us 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.

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, calls on margin, additional capital requirements, 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.

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 $1.7 trillion of Agency mortgage-backed securities as of December 31, 2014. The Federal Reserve's existing policy is to reinvest principal payments from its holdings of Agency mortgage-backed securities into new Agency mortgage-backed securities purchases. While we cannot predict the impact of this program or any future actions by the Federal Reserve on the prices and liquidity of Agency mortgage-backed securities, we expect that during periods in which the Federal Reserve purchases significant volumes of Agency mortgage-backed securities, yields on Agency mortgage-backed securities will be lower and refinancing volumes will be higher than would have been absent their large scale purchases. As a result, returns on Agency mortgage-backed securities may be adversely affected. There is also a risk that as the Federal Reserve reduces their purchases of Agency mortgage-backed securities or if they decide to sell some or all of their holdings of Agency mortgage-backed securities, the pricing of our Agency mortgage-backed securities portfolio may be adversely affected.

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 Agency mortgage-backed securities.

The interest and principal payments we expect to receive on the Agency mortgage-backed securities in which we invest will be 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 Federal Housing Finance Agency, or 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 has taken various actions intended to provide Fannie Mae and Freddie Mac with additional liquidity and ensure their financial stability.

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 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 were eliminated, or their structures were to change radically, we would not be able to acquire Agency mortgage-backed securities from these entities, which could adversely affect our business operations.

The U.S. Government's efforts to encourage refinancing of certain loans may affect prepayment rates for mortgage loans in mortgage-backed securities.

In addition to the increased pressure upon residential mortgage loan investors and servicers to engage in loss mitigation activities, the U.S. Government has encouraged the refinancing of certain loans, and this action may affect prepayment rates for mortgage loans in Agency mortgage-backed securities. To the extent these and other economic stabilization or stimulus efforts are successful in increasing prepayment speeds for residential mortgage loans, such as those in Agency mortgage-backed securities, such efforts could potentially have a negative impact on our income and operating results, particularly in connection with loans or Agency mortgage-backed securities purchased at a premium or our interest-only securities.

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, unemployment, the availability and cost of financing, the mortgage market and a declining real estate market may contribute to increased volatility and diminished expectations for the economy and markets.

For example, as a result of the financial market conditions beginning in the summer of 2007, many traditional mortgage investors suffered severe losses in their residential mortgage portfolios and several major market participants failed or have been 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

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market value of our Agency mortgage-backed securities. If these conditions persist, 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.

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 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 (as well as another REIT externally managed by our wholly owned subsidiary, FIDAC), 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, 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, such as funding from the U.S. Government. Many of our competitors are not subject to the operating constraints associated with REIT tax 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 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.

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 interest rate that banks in London offer for deposits in London of U.S. dollars.
- Treasury Rate. A monthly or weekly average yield of benchmark U.S. Treasury securities, as published by the Federal Reserve Board.

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.

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. In addition, our fixed-rate interest earning assets are generally more 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 decreases in the market value of our interest earning assets.

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 U.S. generally accepted accounting principles (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 other-than-temporary impairment 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 other-than-temporary impairments constitute material estimates that are susceptible to significant change.

We are subject to reinvestment risk.

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.

An increase in prepayment rates may adversely affect our profitability.

The Agency mortgage-backed securities we acquire are backed by pools of mortgage loans. We receive payments, generally, from the payments that are made on these 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 GAAP, we amortize the premiums on our mortgage-backed securities over the 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.

While we seek to minimize prepayment risk to the extent practical, 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.

The viability of other financial institutions could adversely affect us.

Financial services institutions are interrelated as a result of trading, clearing, counterparty, 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 risk in the event of default of our counterparty or, in certain instances, our counterparty's customers. 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, Treasury futures and other derivative transactions to help us mitigate our interest rate and prepayment risks described above. We have used interest rate swaps to provide a level of protection against interest rate risks as well as options to enter into interest rate swaps (commonly referred to as interest rate swaptions). We may also purchase or sell to-be-announced forward contracts on Agency mortgage-backed securities (commonly referred to as TBAs) purchase or write put or call options on TBA securities 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.

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

The CFTC has and continues to issue new rules regarding swaps and swaptions, under the authority granted to it pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, or Dodd-Frank. These new rules 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, or 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, or 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 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, and bear increased 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, 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 are also not cleared, and we bear the credit risk of the dealer.

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.

Regulations relating to derivatives continue to be issued and come into effect. Ongoing regulatory change in this area could increase costs, increase risks, and adversely affect our business and results of operations.

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, any valuations of our assets that are based on valuation models may 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 mortgage-backed securities or residential mortgage-backed securities. These risks include, but are not limited to, the following: (i) collateral 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.

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.

Accounting rules for valuations of financial instruments, mortgage loan sales and securitizations, investment consolidations, acquisitions of real estate and other aspects of our anticipated 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 is valued. 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 are highly dependent on information systems and third parties, and systems failures could significantly disrupt our business, which may, in turn, negatively affect the market price of our common stock and our ability to pay dividends to our stockholders.

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, which could have a material adverse effect on our operating results and negatively affect the market price of our common stock and our ability to pay dividends to our stockholders. 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.

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Computer malware, viruses, and computer hacking and phishing attacks have become more prevalent in our industry and may occur on our systems in the future. We rely heavily on our financial, accounting and other data processing systems. Although we have not detected a breach to date, other financial services institutions have reported 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, and it is likely that other financial institutions have experienced more breaches than have been detected and reported. There is no assurance that we, or the third parties that facilitate our business activities, have not or will not 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 may utilize non-recourse securitizations of our assets in mortgage loans, especially loan originations, 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 the recent unprecedented 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.

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 the issuing entity would issue 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 mortgage 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, redeem debt or equity securities and impact our flexibility to determine our operating policies and strategies. For example, our loan documents may contain negative covenants that limit, among other things, our ability to repurchase our common shares, distribute more than a certain amount of our net income or funds from operations to our stockholders, employ leverage beyond certain amounts, sell assets, engage in mergers or consolidations, grant liens and enter into transactions with affiliates. 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 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. Furthermore, this could also make it difficult for us to satisfy the qualification requirements necessary to maintain our status as a REIT for U.S. federal income tax purposes. 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.

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

We invest in securities in the developing Agency risk transfer sector ("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. Currently, CAS and STACR transactions are structured as unsecured and unguaranteed bonds issued by Fannie Mae or Freddie Mac, respectively, whose principal payments are determined by the delinquency and prepayment experience of a reference pool of mortgages originated and guaranteed by Fannie Mae or Freddie Mac, respectively, in a particular quarter. Transactions arranged by third party market participants in the CRT Sector are similarly structured to reference a specific pool of loans that have been securitized by Fannie Mae or Freddie Mac and synthetically transfer mortgage credit risk related to those loans to the purchaser of the securities. 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 and/or interest on the pool of mortgages referenced in the transaction.

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 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, such as those that occurred on September 11, 2001;
- 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.

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.

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

Many of the commercial real estate debt, preferred equity, and real estate assets we may own 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. Unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events could result in significant

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diminution in the value of our assets, prevent us from acquiring additional assets and have an adverse effect on our operating results.

The commercial 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 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;
- the nonrecourse nature of the mortgage loans;
- litigation and condemnation proceedings regarding the properties; and
- bankruptcy proceedings.

In the event of any default under a mortgage 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 of the mortgage 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. Foreclosure of a mortgage loan can be an expensive and lengthy process, which could have a substantial negative effect on our anticipated return on the foreclosed mortgage loan.

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 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 property;
- 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.

Commercial 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 commercial mortgage-backed securities are generally less sensitive to interest rate changes than more highly rated commercial 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 commercial mortgage-backed securities because the ability of obligors of mortgages underlying commercial 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 on these securities.

The B-Notes that we 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 acquire B-Notes. A B-Note is a mortgage loan 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 typically are 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 that we acquire involve greater risks of loss than senior loans.

We acquire mezzanine loans, which take the form of subordinated loans secured by a pledge of the ownership interests of the entity that owns the interest in the entity owning the property. These types of assets involve a higher degree of risk than senior mortgage lending secured by income-producing real property, because the loan may become unsecured as a result of foreclosure by the senior lender. In the event of a bankruptcy of the entity providing the pledge of its ownership interests as security, 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 or debt senior to our loan, or in the event of a borrower bankruptcy, our mezzanine loan will be satisfied only after the senior debt. As a result, we may not recover some or all of our initial investment. In addition, mezzanine loans may have higher loan-to-value ratios than conventional mortgage loans, resulting in less equity in the property and increasing the risk of loss of principal. Significant losses related to our mezzanine loans 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.

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 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, 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 by a borrower under a mortgaged property 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.

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 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 secured by those properties. In recent periods, several regions of the United States have experienced significant real estate downturns when others have 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., earthquakes, floods, forest fires or 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 mortgaged 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.

Assets may suffer casualty losses due to risks (including acts of terrorism) that are not covered by insurance or for which insurance coverage is not adequate or available at commercially reasonable rates or has otherwise been contractually limited by the related mortgage 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 mortgage loan documents or that such insurance will be adequate. In addition, since the mortgage loans generally do not require maintenance of terrorism insurance, we cannot assure you that any property will be covered by terrorism insurance. Therefore, damage to a mortgaged property caused by acts of terror may not be covered by insurance and 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 will 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 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 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 of certain borrowers. 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 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 and 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 and sub-performing assets, which are subject to increased risks relative to performing assets. Loans may become non-performing or sub-performing for a variety of reasons, such as the underlying property being too highly leveraged, decreasing income generated from the underlying property, or the financial distress of the borrower, in each case, that results in the borrower being unable to meet its debt service and/or repayment obligations. 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 entail, among other things, a substantial reduction in interest rate, the capitalization of interest payments and a substantial write-down of the principal of the loan. Even if a restructuring were successfully accomplished, the

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borrower may not be able or willing to maintain the restructured payments or refinance the restructured mortgage upon maturity.

From time to time we find it necessary or desirable to foreclose on some, if not many, of the loans we acquire, 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, 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, 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 experience losses if the creditworthiness of our tenants deteriorates and they are unable to meet their lease obligations.

We own properties leased to tenants of our real estate assets and receive rents from tenants during the contracted term of such 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, however, 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. 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 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, 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.

We may be required to repurchase 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 commercial 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.

We 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 making an asset acquisition, 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 it, 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 an 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 an asset 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 property underlying the assets we are acquiring are of a different type or class than property we have had experience owning directly, including properties such

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as hotels. 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.

Financial covenants could adversely affect our ability to conduct our business.

The mortgages on our 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. These restrictions could adversely affect operations, and our ability to pay debt obligations. In addition, in some instances guaranties given as further security for these mortgage loans contain affirmative covenants to maintain a minimum net worth and liquidity.

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 Relationship with Our Manager

The management agreement was not negotiated on an arm's length basis 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 by members of our management, the management agreement was developed by related parties. Although our independent directors, who were 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 principal owners and employees of the Manager, our directors may choose 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 by members of our management. The 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.

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, 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 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' fiduciary duties.

Our current executive officers are members or 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 members or employees of the Manager.

Risks Related to Our Taxation as a REIT

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

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 Internal Revenue Code of 1986, as amended, and Treasury Regulations promulgated thereunder (or 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. 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.

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

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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 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. If we do not have other funds available in these situations we could be required to borrow funds on unfavorable terms, sell investments at disadvantageous prices or distribute amounts that would otherwise be invested in future acquisitions to make distributions sufficient to enable us to pay out enough of our taxable income to satisfy the REIT distribution requirement and to avoid corporate income tax and the 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.

Limits on ownership of our common 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 our common stock and will prohibit 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 or series of our preferred stock. Our board of directors, 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" for purposes of the federal tax laws if it is satisfied, based upon information required to be provided by the party seeking the waiver and upon an opinion of counsel satisfactory to the board of directors, that ownership in excess of this limit will not otherwise jeopardize our status as a REIT for federal income tax purposes.

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 25% of its total assets in the stock or securities of one or more taxable REIT subsidiaries; therefore, our taxable subsidiaries cannot constitute more than 25% of our total assets.

A taxable REIT subsidiary (or TRS) is a corporation, other than a REIT or a qualified REIT subsidiary, in which a REIT owns stock and which elects 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 taxable REIT subsidiaries. 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 25% of the value of a REIT's assets may consist of stock or securities of one or more taxable REIT subsidiaries.

The stock and securities of our taxable REIT subsidiaries are expected to represent less than 25% of the value of our total assets. Furthermore, we intend to monitor the value of our investments in the stock and securities of our taxable REIT subsidiaries to ensure compliance with the above-described 25% limitation. We cannot assure you, however, that we will always be able to comply with the 25% limitation so as to maintain REIT status.

Taxable REIT subsidiaries 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. Our taxable REIT subsidiaries will pay corporate income tax on their taxable income, and their after-tax net income will be available for distribution to us. Such income, however, is not required to be distributed.

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 taxable REIT subsidiaries 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 taxable REIT subsidiaries, 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 taxable REIT subsidiaries to us in the form of dividends. Certain asset transfers may, therefore, have to be structured as purchase and sale transactions upon which our taxable REIT subsidiaries 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 taxable REIT subsidiaries 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.

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

We may in the future distribute taxable dividends that are payable in cash and 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.

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

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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, government securities and qualified REIT real estate assets. The remainder of our investment in securities (other than government securities and qualified real estate assets) 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 government securities and qualified real estate assets) can consist of the securities of any one issuer, and no more than 25% of the value of our total securities 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.

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.

We invest in mezzanine loans and similar debt, 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 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 agency securities, 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 prohibited transaction characterization.

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. 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.

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 K&L Gates LLP substantially to the effect that (i) for purposes of the REIT asset tests, our ownership of a TBA should be treated as ownership of the underlying agency securities, 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 the underlying agency securities. 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 K&L Gates LLP 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 K&L Gates LLP, 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 do not qualify for the reduced tax rates on 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 rates. 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.

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.

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;
- actions by institutional stockholders;
- speculation in the press or investment community;
- changes in our distribution policy;
- 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.

There may be future sales or other dilution of our equity, which may adversely affect the market price of our common stock.

Under our charter, we have 2,000,000,000 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. We cannot predict the effect that future sales of our common stock or other equity-related securities would have on the market price of our common stock.

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 of directors.

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 lesser of the total number or value of the outstanding shares of our common stock or more than 9.8% of the outstanding shares of our 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 of directors 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 an 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 of directors.
- Preferred Stock. Our charter authorizes our board of directors 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."

The repurchase right in our Convertible Senior Notes triggered by a fundamental change could discourage a potential acquirer.

If we undergo certain fundamental changes, such as the acquisition of 50% of the voting power of all shares of our common equity entitled to vote generally in the election of directors, holders of our Convertible Senior Notes may require us to repurchase all or a portion of their notes at a price equal to 100% of the principal amount of the notes to be purchased plus any accrued and unpaid interest up to, but excluding, the repurchase date. We will pay for all notes so repurchased with shares of our common stock using a price per share equal to the average daily volume-weighted average price of our common stock for the 20 consecutive trading days ending on the trading day immediately prior to the occurrence of the fundamental change. The issuance of these shares of common stock upon certain fundamental changes could discourage a potential acquirer.

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.

We have not established a minimum dividend payment level.

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 of directors and will depend on our earnings, our financial condition, maintenance of our REIT status and such other factors as our board of directors may deem relevant from time to time.

Our reported GAAP financial results differ from the

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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 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 of 1940, as amended (or Investment Company Act). If we fail to qualify for this exemption, 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" (or 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 the provisions of the Investment Company Act and the rules and regulations promulgated under the Investment Company Act.

We rely on an interpretation that "whole pool certificates" that are issued or guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae (or 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). Under the concept release, the SEC is 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 determines that any of these securities are not 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.

Compliance with proposed and recently enacted changes in securities laws and regulations increases our costs.

The Dodd-Frank Act contains many regulatory changes and calls for future rulemaking that may affect our business, including, but not limited to resolutions involving derivatives, risk-retention in securitizations and short-term financings. We are evaluating, and will continue to evaluate the potential impact of regulatory change under the Dodd-Frank Act.

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 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. In the opinion of management, the ultimate disposition of these matters will not have a material effect on our consolidated financial statements.

ITEM 4. MINE SAFETY DISCLOSURES

None.

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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 February 20, 2015, we had 947,675,799 shares of common stock issued and outstanding which were held by approximately 432,000 beneficial holders.

The following table sets forth, for the periods indicated, the high, low, and closing prices per share of our common stock as reported on the New York Stock Exchange composite tape and the cash dividends declared per share of our common stock.

	2014				2013			
	High	Low	Close	Common Dividends Declared Per Share	High	Low	Close	Common Dividends Declared Per Share
First quarter	$11.51	$9.92	$10.97	$0.30	$16.18	$14.12	$15.89	$0.45
Second quarter	$11.87	$10.78	$11.43	$0.30	$16.00	$12.16	$12.57	$0.40
Third quarter	$11.95	$10.66	$10.68	$0.30	$12.69	$10.63	$11.58	$0.35
Fourth quarter	$11.65	$10.68	$10.81	$0.30	$12.22	$9.66	$9.97	$0.30

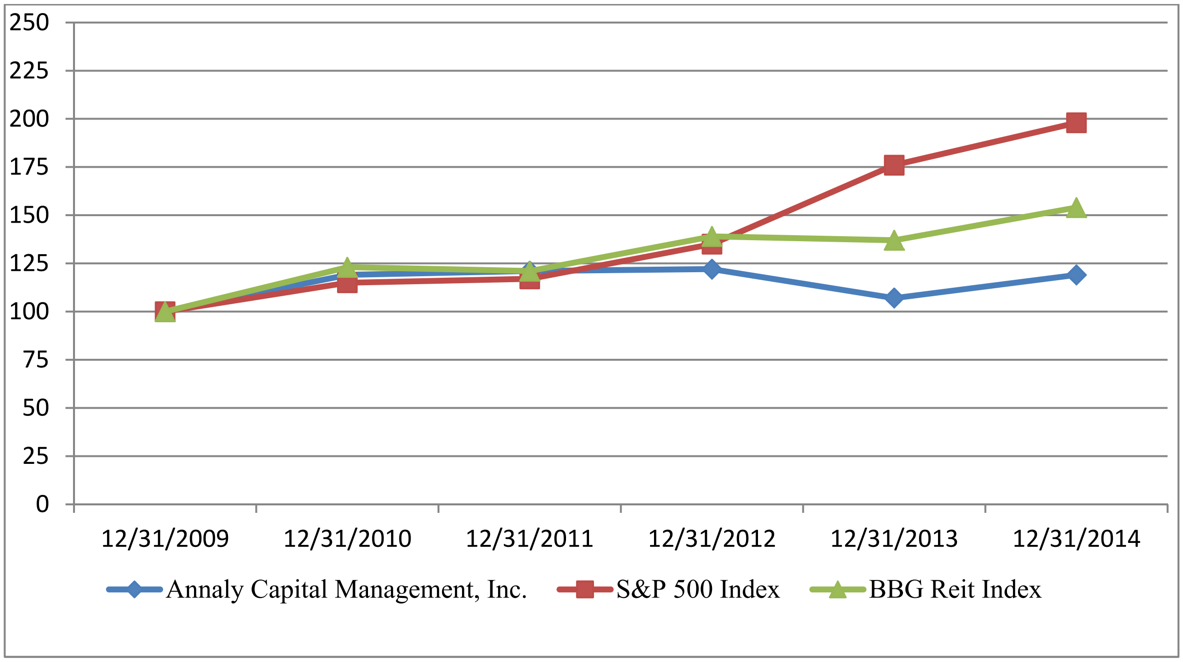
On February 20, 2015, the last reported sale price of our common stock on the New York Stock Exchange was $10.72 per share.

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). 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 for the reasons described under the caption "Risk Factors." All distributions will be made at the discretion of our board of directors and will depend on our earnings, our financial condition, maintenance of our REIT status and such other factors as our board of directors may deem relevant from time to time. 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, 2014, 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 REIT Mortgage Index, or BBG REIT index, an industry index of mortgage REITs. The comparison is for the period from December 31, 2009 to December 31, 2014 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 December 31, 2009. Upon written request we will provide stockholders with a list of the REITs included in the BBG REIT Index.

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



	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014
Annaly Capital Management,	100	119	121	122	107	119
S&P 500 Index	100	115	117	135	176	198
BBG Reit Index	100	123	121	139	137	154

The information in the share performance graph and table has been obtained from sources believed to be reliable, but neither its accuracy nor its 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.

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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 of directors 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. For a description of our 2010 Equity Incentive Plan, see Notes to Consolidated Financial Statements.

We had previously adopted a long term stock incentive plan for executive officers, key employees and nonemployee directors (the Incentive Plan). Since the adoption of the 2010 Equity Incentive Plan, no further awards will be made under the Incentive Plan, although existing awards will remain effective. All stock options issued under the 2010 Equity Incentive Plan and Incentive Plan (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. For a description of our Incentive Plan, see Notes to Consolidated Financial Statements.

The following table provides information as of December 31, 2014 concerning shares of our common stock authorized for issuance under the Incentive Plans.

Plan Category	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 previously issued)
		(dollars in thousands)	
Equity compensation plans approved by security holders	2,259,335	15.35	28,156,221
Equity compensation plans not approved by security holders	-	-	-
Total	2,259,335	15.35	28,156,221

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data should be read in conjunction with the more detailed information contained in the 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

	For the Years Ended December 31,				
Statement of Operations Data:	**2014**	**2013**	**2012**	**2011**	**2010**
	(dollars in thousands, except per share data)				
Interest income	$ 2,632,647	$ 2,918,562	$ 3,259,145	$ 3,579,618	$ 2,683,134
Interest expense	512,659	624,714	667,172	480,326	428,225
Net interest income	2,119,988	2,293,848	2,591,973	3,099,292	2,254,909
Other income (loss)	(2,747,604)	1,676,144	(584,602)	(2,459,576)	(783,293)
General and administrative expenses	209,338	232,081	235,559	237,344	171,847
Income (loss) before income taxes and income from equity method investment in affiliate	(836,954)	3,737,911	1,771,812	402,372	1,299,769
Income (loss) from equity method investment in affiliate	-	-	-	1,140	2,945
Income taxes	5,325	8,213	35,912	59,051	35,434
Net income (loss)	(842,279)	3,729,698	1,735,900	344,461	1,267,280
Net income (loss) attributable to noncontrolling interest	(196)	-	-	-	-
Net income (loss) attributable to Annaly	(842,083)	3,729,698	1,735,900	344,461	1,267,280
Dividends on preferred stock	71,968	71,968	39,530	16,854	18,033
Net income (loss) available (related) to common stockholders	$ (914,051)	$ 3,657,730	$ 1,696,370	$ 327,607	$ 1,249,247
Net income (loss) per share available (related) to common stockholders:					
Basic	$ (0.96)	$ 3.86	$ 1.74	$ 0.37	$ 2.12
Diluted	$ (0.96)	$ 3.74	$ 1.71	$ 0.37	$ 2.04
Weighted average number of common shares outstanding:					
Basic	947,539,294	947,337,915	972,902,459	874,212,039	588,192,659
Diluted	947,539,294	995,557,026	1,005,755,057	874,518,938	625,307,174
Other Financial Data:					
Total assets	$ 88,355,367	$ 81,922,460	$ 133,452,295	$ 109,630,002	$ 83,026,590
6.00% Series B Cumulative Convertible Preferred Stock	$ -	$ -	$ -	$ 32,272	$ 40,032
Total equity	$ 13,333,781	$ 12,405,055	$ 15,924,444	$ 15,760,642	$ 9,864,900
Dividends declared per common share	$ 1.20	$ 1.50	$ 2.05	$ 2.44	$ 2.65

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 Securities and Exchange Commission (the SEC or the Commission), in our press releases or in our other public or stockholder communications may not be based on historical facts and are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements, which are based on various assumptions, (some of which are beyond our control) 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 the commercial mortgage business, credit risks related to our investments in commercial real estate assets and corporate debt, our ability to consummate any contemplated investment opportunities and other corporate transactions, changes in governmental regulations affecting our business, our ability to maintain our classification as a real estate investment trust (or REIT) for federal income tax purposes, our ability to maintain our exemption from registration under the Investment Company Act of 1940, as amended (or Investment Company Act), and risks associated with the business of our subsidiaries, including the investment advisory businesses of our subsidiary, and risks associated with the broker dealer business of our subsidiary. For a discussion of the risks and uncertainties which could cause actual results to differ from those contained in the forward-looking statements, see the information under the caption "Risk Factors" contained in this Form 10-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.

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

Overview

We are a leading mortgage REIT that is externally managed by Annaly Management Company LLC (or Manager). Our common stock is listed on the New York Stock Exchange under the symbol "NLY." Since our founding in 1997, we have strived to generate net income for distribution to our stockholders through the prudent selection and management of our investments. We own a portfolio of real estate related investments. We use our capital coupled with borrowed funds to invest 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 Item 1 "Business."

Business Environment

We maintained the size of our Agency mortgage-backed securities portfolio in the fourth quarter of 2014 and remain cautious as the Federal Reserve (or Fed) ceased adding to their Agency mortgage backed securities portfolio in October of this year. The Fed has concluded the third round of their asset purchasing program known as Quantitative Easing 3 (QE3), and increases in the federal funds target rate are expected to begin in 2015. Furthermore, the recent decline in longer term interest rates has increased mortgage prepayment risk which may adversely impact MBS cash flows.

Economic Environment

Economic growth, as measured by real gross domestic product (or GDP), recovered from a seasonally-adjusted annualized decline of 2.1% in the first quarter of 2014 to subsequently grow 4.6% and 5.0% in the second and third quarters of 2014, respectively, according to the Bureau of Economic Analysis. The year-over-year growth rate of 2.7% was slightly below the 3.1% growth rate in 2013. The components were mixed but generally positive, with consumer spending and private investment growing at approximately the same pace as 2013. The persistent fall in oil prices as well as continued employment gains through the fourth quarter of 2014 provides optimism for U.S. growth in the coming quarters.

The Fed currently conducts monetary policy with a dual mandate: full employment and price stability. The employment situation improved vastly in 2014, with average monthly employment gains of 260,000 through December 2014 compared to 199,000 per month in 2013, according to the Bureau of Labor Statistics. The unemployment rate continued to decline, down to 5.6% in December 2014 compared to 6.7% in December 2013. This is only slightly above the Fed's own estimate of the mandate-consistent unemployment rate, which was placed at 5.2-5.5% as of December 17, 2014. However, labor market slack remains in long-term unemployment, the part-time employment share and those out of the labor force who desire a job, all of which remain elevated relative to long-term averages. Inflation remained below the Fed's 2% target for the entirety of the year, as measured by the Personal Consumer Expenditure Chain Price Index (or PCE), and weakened in the fourth quarter of 2014 as oil prices suffered sharp declines. The headline PCE measure fell to 0.8% year-over-year in December 2014, down from December 2013 and 1.6% in June 2014, and is expected to fall further as the decline in energy prices take effect. The more stable core PCE measure, which excludes food and energy prices, also remained below target at 1.3% year-over-year in December 2014, unchanged from December 2013. The Federal Open Market Committee (FOMC or the Committee) has noted that "inflation persistently below its 2% objective could pose risks to economic performance," and believes the current level of inflation below target is due to "transitory effects of lower energy prices and other factors" and expects inflation to rise gradually toward 2%.

The FOMC has aimed to support its dual mandate through both keeping its target rate at the zero lower bound and conducting open market operations, or Quantitative Easing (or QE). QE3 was announced on September 13, 2012, as the FOMC statement indicated they would begin making monthly purchases of Agency mortgage-backed securities at the initial pace of $40 billion. In addition, the FOMC announced that it would maintain its existing accommodative policy of reinvesting principal payments from its holdings of Agency mortgage-backed securities purchases into new Agency mortgage-backed securities as part of its stimulus. Two meetings later, on December 12. 2012, the FOMC announced it would also begin purchasing longer-term Treasury securities at a monthly pace of $45 billion. This program was open-ended in nature, stating as its intent "to support a stronger economic recovery and to help ensure that inflation, over time, is at the rate most consistent with its dual mandate." To further enhance their accommodative policy, at their December 12, 2012, meeting, the FOMC gave "forward guidance" on their future policy rate increases as follows: "the Committee expects that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the asset purchase program ends and the economic recovery strengthens."

At their December 17-18, 2013 meeting, the FOMC decided to reduce monthly purchases of U.S. Treasury bonds and Agency mortgage-backed securities by $5 billion each, therefore purchasing $40 billion in U.S. Treasuries and $35 billion in Agency mortgage-backed securities per month beginning in January 2014. The Fed kept this "taper" in place throughout the year, reducing monthly purchases by a total of $10 billion during each meeting in 2014, eventually ending their program by reducing purchases by the final combined $15 billion at their October 28-29, 2014 meeting. Simultaneous to the release of their September 17, 2014 statement, the FOMC released their "policy normalization principles and plans," in which they stated their intention to reduce their security holdings primarily by ceasing reinvestments only after their first rate hike and that they currently do not anticipate selling agency mortgage-backed securities as part of their normalization process.

Markets had muted reactions to the gradual lessening of stimulus, with financial conditions remaining more accommodative than normal (as measured by the Bloomberg Financial Conditions Index). Longer-term rates declined throughout the year, largely driven by declining market-based inflation expectations and inflation risk premium, in large part owing to significant declines in oil prices. The mortgage basis, or spread between the 30-year Agency mortgage-backed security current coupon and 10-year U.S. Treasury, remained stable throughout the year amidst muted volatility.

The following table summarizes interest rates as of each date presented:

	As of December 31,		
	2014	2013	2012
30-Year mortgage current coupon	2.83%	3.61%	2.23%
Mortgage basis	66 bps	58 bps	47 bps
10-Year U.S. Treasury rate	2.17%	3.03%	1.76%
LIBOR:			
1-Month	0.17%	0.17%	0.21%
6-Month	0.36%	0.35%	0.51%

Financial Regulatory Reform

Uncertainty remains surrounding financial regulatory reform and its impact on the markets and the broader economy. In particular, the government is attempting to change its involvement through the Agencies in the mortgage market. There have been numerous legislative initiatives introduced regarding the Agencies, and it is unclear which approach, if any, may become law. In addition, regulators remain focused on the wholesale funding markets, bank capital levels and shadow banking. It is difficult to predict the ultimate legislative and other regulatory outcomes of these efforts. We continue to monitor these legislative and regulatory developments and evaluate their potential impact on our business.

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") and in Part I, Item 1A. "Risk factors".

Net Income (Loss) Summary

The following table presents summarized financial information related to our results of operations as of and for the years ended December 31, 2014, 2013 and 2012.

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	As of and for the Years Ended December 31,		
	2014	2013	2012
	(dollars in thousands, except per share data)		
Interest income	$ 2,632,647	$ 2,918,562	$ 3,259,145
Interest expense	512,659	624,714	667,172
Net interest income	2,119,988	2,293,848	2,591,973
Other income (loss)	(2,747,604)	1,676,144	(584,602)
General and administrative expenses	209,338	232,081	235,559
Income (loss) before income taxes	(836,954)	3,737,911	1,771,812
Income taxes	5,325	8,213	35,912
Net income (loss)	(842,279)	3,729,698	1,735,900
Net income (loss) attributable to noncontrolling interest	(196)	-	-
Net income (loss) attributable to Annaly	(842,083)	3,729,698	1,735,900
Dividends on preferred stock	71,968	71,968	39,530
Net income (loss) available (related) to common stockholders	$ (914,051)	$ 3,657,730	$ 1,696,370
Net income (loss) per share available (related) to common stockholders:			
Basic	$ (0.96)	$ 3.86	$ 1.74
Diluted	$ (0.96)	$ 3.74	$ 1.71
Weighted average number of common shares outstanding:			
Basic	947,539,294	947,337,915	972,902,459
Diluted	947,539,294	995,557,026	1,005,755,057
Non-GAAP financial measures [(1)]**:**			
Economic interest expense	$ 1,338,019	$ 1,533,008	$ 1,560,941
Economic net interest income	$ 1,294,628	$ 1,385,554	$ 1,698,204
Core earnings	$ 1,147,739	$ 1,222,959	$ 1,537,732
Core earnings per average basic common share	$ 1.14	$ 1.21	$ 1.54
Other information:			
Asset portfolio at period-end	$ 84,828,267	$ 75,120,622	$ 127,036,719
Average total assets	$ 85,446,307	$ 107,355,670	$ 126,649,002
Average equity	$ 12,972,683	$ 13,968,979	$ 16,206,642
Leverage at period-end [(2)]	5.4:1	5.0:1	6.5:1
Capital ratio	15.1%	15.1%	11.9%
Net interest margin	1.52%	1.31%	1.45%
Net interest spread	1.21%	1.09%	1.27%
Return on average total assets	(0.99%)	3.47%	1.37%
Return on average equity	(6.49%)	26.70%	10.71%
Constant prepayment rate	8%	14%	20%
Common stock book value per share	$ 13.10	$ 12.13	$ 15.85

(1) See "Non-GAAP Financial Measures" for a reconciliation of our non-GAAP measures to their corresponding GAAP amounts.

(2) Includes repurchase agreements, Convertible Senior Notes and non-recourse securitized debt, loan participation and mortgages payable.

This Management Discussion and Analysis section contains analysis and discussion of non-GAAP measurements. See "Non-GAAP Financial Measures" for further information.

2014 Compared with 2013

GAAP

Net income (loss) was ($842.3) million, which includes ($0.2) million attributable to a noncontrolling interest, or ($0.96) per average basic common share, for the year ended December 31, 2014 compared to $3.7 billion, or $3.86 per average basic common share, for the same period in 2013. We attribute the majority of the change in net income (loss) to the change in unrealized gains (losses) on interest rate swaps which resulted in a loss of $948.8 million for the year ended December 31, 2014 compared to a gain of $2.0 billion for the same period in 2013. The change in the fair value of interest rate swaps was primarily attributable to the downward trend in interest rates experienced during the year ended December 31, 2014 compared to the rise in interest rates experienced during the same period in 2013. The change in unrealized gains (losses) on interest rate swaps were partially offset by the reversal of unrealized losses in connection with interest rate swap positions that were terminated in 2014, which resulted in a $677.5 million increase in realized losses on the termination of interest rate swaps for the year ended December 31, 2014 compared to the same period in 2013.

Non-GAAP

Core earnings were $1.1 billion, or $1.14 per average basic common share, for the year ended December 31, 2014, a decrease of $75.2 million compared to $1.2 billion, or $1.21 per average basic common share, for the same period in 2013. We attribute the majority of the change to a decline in interest income of $285.9 million, primarily attributable to a decline in average Interest Earning Assets, partially offset by lower amortization expense and a decline in economic interest expense of $195.0 million, primarily attributable to a decline in average Interest Bearing Liabilities and swap notional amounts, for the year ended December 31, 2014 compared to the same period in 2013.

2013 Compared with 2012

GAAP
Net income (loss) increased $2.0 billion to $3.7 billion, or $3.86 per average basic common share for the year ended December 31, 2013, compared to $1.7 billion, or $1.74 per average basic common share, for the year ended December 31, 2012. We attribute the majority of the increase to the change in unrealized gains (losses) on interest rate swaps, which resulted in a gain of $2.0 billion for the year ended December 31, 2013 compared to a loss of $32.2 million for the same period in 2012. The change in the fair value of interest rate swaps was primarily attributable to the rise in interest rates experienced during the year ended December 31, 2013.

Non-GAAP
Core earnings were $1.2 billion, or $1.21 per average basic common share, for the year ended December 31, 2013, a decrease of $314.8 million compared to $1.5 billion, or $1.54 per average basic common share, for the same period in 2012. We attribute the majority of the decrease to a decline in economic net interest income of $312.7 million from 2012, primarily attributable to a decline in average Interest Earning Assets.

Non-GAAP Financial Measures

The non-GAAP measurements include the following:

- core earnings;
- core earnings per average basic common share;
- economic interest expense; and
- economic net interest income.

Core earnings represents a non-GAAP measure and is defined as net income (loss) excluding gains or losses on disposals of investments and termination of interest rate swaps, unrealized gains or losses on interest rate swaps and Agency interest-only mortgage-backed securities, net gains and losses on trading assets, impairment losses, GAAP net income (loss) attributable to noncontrolling interest and certain other non-recurring gains or losses.

We believe that core earnings, core earnings per average basic common share, economic interest expense and economic net interest income provide meaningful information to consider, in addition to the respective amounts prepared in accordance with GAAP. The non-GAAP measures help us to evaluate our financial position and performance without the effects of certain transactions and GAAP adjustments that are not necessarily indicative of our current investment portfolio and operations.

Our presentation of non-GAAP financial measures has important limitations. Other market participants may calculate core earnings, core earnings per average basic common share, economic interest expense and economic net interest income differently than we calculate them, making comparative analysis difficult.

Although we believe that the calculation of non-GAAP financial measures described above helps evaluate and measure our financial position and performance without the effects of certain transactions, it is of limited usefulness as an analytical tool. Therefore, the non-GAAP financial measures should not be viewed in isolation and are not a substitute for net income (loss), net income (loss) per basic share available (related) to common stockholders, interest expense and net interest income computed in accordance with GAAP.

Core Earnings

The following table provides GAAP measures of net income (loss) and net income (loss) per basic share available to common stockholders for the years ended December 31, 2014, 2013 and 2012 and details with respect to reconciling the aforementioned line items on a non-GAAP basis:

	For the Years Ended December 31, 2014	2013	2012
	(dollars in thousands, except per share data)		
GAAP net income (loss)	$ (842,279)	$ 3,729,698	$ 1,735,900
Adjustments:			
Realized (gains) losses on termination of interest rate swaps	779,333	101,862	2,385
Unrealized (gains) losses on interest rate swaps	948,755	(2,002,200)	32,219
Net (gains) losses on disposal of investments	(93,716)	(403,045)	(432,139)
Net loss on extinguishment of 4% Convertible Senior Notes	-	-	162,340
Net (gains) losses on trading assets	245,495	(1,509)	(22,910)
Net unrealized (gains) losses on interest-only Agency mortgage-backed securities	86,172	(244,730)	59,937
Impairment of goodwill	-	23,987	-
Loss on previously held equity interest in CreXus	-	18,896	-
Other non-recurring expense (1)	23,783	-	-
GAAP net income (loss) attributable to noncontrolling interest	196	-	-
Core earnings	$ 1,147,739	$ 1,222,959	$ 1,537,732
GAAP net income (loss) per average basic common share	$ (0.96)	$ 3.86	$ 1.74
Core earnings per average basic common share	$ 1.14	$ 1.21	$ 1.54

(1) Represents a one-time payment made by FIDAC to Chimera Investment Corp. (Chimera) to resolve issues raised in derivative demand letters sent to Chimera's board of directors. This amount is included as a component of Other income (loss) in the Consolidated Statements of Comprehensive Income (Loss).

Economic Interest Expense and Economic Net Interest Income

We believe the economic value of our investment strategy is depicted by the economic net interest income we earn. We calculate economic net interest income by determining our GAAP net interest income and reducing it by realized losses on interest rate swaps, which represents interest expense on interest rate swaps. Our economic interest expense, which is composed of interest expense on our Interest Bearing Liabilities plus interest expense on interest rate swaps, reflects total contractual interest payments.

The following table provides 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:

For the Years Ended:	GAAP Interest Expense	Add: Realized Losses on Interest Rate Swaps (1)	Economic Interest Expense	GAAP Net Interest Income	Less: Realized Losses on Interest Rate Swaps (1)	Economic Net Interest Income
	(dollars in thousands)					
December 31, 2014	$ 512,659	$ 825,360	$ 1,338,019	$ 2,119,988	$ 825,360	$ 1,294,628
December 31, 2013	$ 624,714	$ 908,294	$ 1,533,008	$ 2,293,848	$ 908,294	$ 1,385,554
December 31, 2012	$ 667,172	$ 893,769	$ 1,560,941	$ 2,591,973	$ 893,769	$ 1,698,204

(1) Interest expense related to our interest rate swaps is recorded in realized gains (losses) on interest rate swaps on the Consolidated Statements of Operations and Comprehensive Income (Loss).

Interest Income and Average Yield on Interest Earning Assets

Prepayment speeds, as reflected by the Constant Prepayment Rate, or 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 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 on our Agency mortgage-backed securities portfolio for the periods presented.

Years Ended	CPR
December 31, 2014	8%
December 31, 2013	14%
December 31, 2012	20%

We had average Interest Earning Assets of $85.2 billion, $105.4 billion and $117.3 billion, and the average yield on Interest Earning Assets was 3.09%, 2.77%, and 2.78% for the years ended December 31, 2014, 2013 and 2012, respectively.

2014 Compared with 2013

Interest income was $2.6 billion for the year ended December 31, 2014, a decrease of $0.3 billion compared to $2.9 billion for the same period in 2013. The decline was primarily due to a $20.2 billion decrease in average Interest Earning Assets, partially offset by lower amortization on our Investment Securities resulting from lower prepayment speeds, for the year ended December 31, 2014 compared to the same period in 2013.

2013 Compared with 2012

Interest income was $2.9 billion for the year ended December 31, 2013, a decrease of $0.4 billion compared to $3.3 billion for the same period in 2012. The decline was primarily due to an $11.9 billion decrease in average Interest Earning Assets, partially offset by lower amortization on our Investment Securities resulting from lower prepayment speeds, for the year ended December 31, 2013 compared to the same period in 2012.

Economic Interest Expense and the Average Cost of Interest Bearing Liabilities

Our largest expense is the average cost of Interest Bearing Liabilities and interest expense on interest rate swaps, which is recorded in realized gains (losses) on interest rate swaps on the Consolidated Statements of Comprehensive Income (Loss). 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 and economic interest expense for the periods presented.

Cost of Funds on Average Interest Bearing Liabilities

For the Years Ended:	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)								
December 31, 2014	$ 70,983,100	$ 72,481,614	$1,338,019	1.88%	0.16%	0.33%	(0.17%)	1.72%	1.55%
December 31, 2013	$ 91,182,731	$ 67,066,390	$1,533,008	1.68%	0.19%	0.41%	(0.22%)	1.49%	1.27%
December 31, 2012	$ 103,362,717	$ 105,914,990	$1,560,941	1.51%	0.24%	0.69%	(0.45%)	1.27%	0.82%

(1) Economic interest expense includes interest expense on interest rate swaps.

2014 Compared with 2013

Economic interest expense, including interest expense on interest rate swaps, for the year ended December 31, 2014 decreased by $195.0 million when compared to the year ended December 31, 2013, primarily due to the $20.2 billion decline in average Interest Bearing Liabilities and lower swap interest expense on lower average notional balances for the year ended December 31, 2014 compared to the same period in 2013, partially offset by a 20 basis point increase in cost of Interest Bearing Liabilities.

2013 Compared with 2012

Economic interest expense, including interest expense on interest rate swaps, for the year ended December 31, 2013 decreased by $27.9 million when compared to the year ended December 31, 2012, primarily due to the $12.2 billion decline in average Interest Bearing Liabilities for the year ended December 31, 2013 compared to the same period in 2012, partially offset by a 17 basis point increase in the cost of Interest Bearing Liabilities, largely attributable to increased swap expense.

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 should be expected to 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 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

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during a quarter will 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 will differ during periods when we conduct capital raises, as in certain instances we may purchase additional assets and increase leverage with the expectation of a successful 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.

As of December 31, 2014 and 2013, 98% and 99%, respectively, of our debt consisted of borrowings collateralized by a pledge of our Investment Securities. These borrowings appear on our Consolidated Statements of Financial Condition as Repurchase Agreements. All of our Agency mortgage-backed securities and debentures 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 thus increase the liquidity and strength of our balance sheet. As of December 31, 2014, the term to maturity of our repurchase agreements ranged from one day to five years. Additionally, we have entered into borrowings giving the counterparty the right to call the balance prior to maturity. At December 31, 2014 and 2013, the weighted average cost of funds for all of our borrowings was 1.65% and 2.37%, respectively, including the effect of the interest rate swaps, 4% Convertible Senior Notes due 2015 and 5% Convertible Senior Notes due 2015 (collectively, the Convertible Senior Notes) and securitized debt of consolidated VIE, and the weighted average days to maturity was 142 days and 208 days, respectively.

Economic Net Interest Income

The table below shows our average Interest Earning Assets, total interest income, average yield on Interest Earning Assets, average Interest Bearing Liabilities, economic interest expense, average cost of Interest Bearing Liabilities, economic net interest income, net interest spread and net interest margin for the periods presented.

Economic Net Interest Income

For the Years Ended:	Average Interest Earning Assets(1)	Total Interest Income	Average Yield on Interest Earning Assets	Average Interest Bearing Liabilities	Economic Interest Expense(2)	Average Cost of Interest Bearing Liabilities	Economic Net Interest Income(3)	Net Interest Spread	Net Interest Margin
	(dollars in thousands)								
December 31, 2014	$ 85,170,734	$ 2,632,647	3.09%	$ 70,983,100	$1,338,019	1.88%	$1,294,628	1.21%	1.52%
December 31, 2013	$ 105,375,229	$ 2,918,562	2.77%	$ 91,182,731	$1,533,008	1.68%	$1,385,554	1.09%	1.31%
December 31, 2012	$ 117,274,876	$ 3,259,145	2.78%	$ 103,362,717	$1,560,941	1.51%	$1,698,204	1.27%	1.45%

(1) Does not reflect unrealized gains/(losses) or premium/(discount).

(2) Economic interest expense includes interest expense on interest rate swaps.

(3) Economic net interest income includes interest expense on interest rate swaps.

2014 Compared with 2013

Economic net interest income totaled $1.3 billion for the year ended December 31, 2014, a decrease of $90.9 million compared to the same period in 2013. We attribute the majority of the change to a decline in interest income, primarily attributable to a decline in average Interest Earning Assets $20.2 billion, partially offset by a lower amortization expense, which reflects lower estimated prepayment speeds on our Agency mortgage-backed securities portfolio, and a decline in economic interest expense, primarily attributable to a decline in average Interest Bearing Liabilities of $20.2 billion and lower swap interest expense on lower average notional balances, for the year ended December 31, 2014 compared to the same period in 2013.

2013 Compared with 2012

Economic net interest income totaled $1.4 billion for the year ended December 31, 2013, a decrease of $312.6 million compared to the same period in 2012. The decline was primarily due to a lower net interest rate spread for the year ended December 31, 2013 compared to the same period in 2012. Our average Interest Earning Assets decreased by $11.9 billion during the year ended December 31, 2013 compared to the same period in 2012.

Other Income (Loss)

Other income (loss) is largely comprised of net gains (losses) on interest rate swaps, investment advisory income, net gains (losses) on disposal of investments, dividend income from affiliates, net gains (losses) on trading assets, net unrealized gains (losses) on interest-only Agency mortgage-backed securities and other income (loss). These components of other income (loss) for the years ended December 31, 2014, 2013 and 2012 were as follows:

	For the Years Ended December 31,		
	2014	2013	2012
	(dollars in thousands)		
Net gains (losses) on interest rate swaps [(1)]	$ (2,553,448)	$ 992,044	$ (928,373)
Investment advisory income	31,343	43,643	82,138
Net gains (losses) on disposal of investments	93,716	403,045	432,139
Dividend income from affiliates	25,189	18,575	28,336
Net gains (losses) on trading assets	(245,495)	1,509	22,910
Net unrealized gains (losses) on interest-only Agency mortgage-backed securities	(86,172)	244,730	(59,937)
Other income (loss)	(12,737)	15,481	525

(1) Includes realized gains (losses) on interest rate swaps, realized gains (losses) on termination of interest rate swaps and unrealized gains (losses) on interest rate swaps.

2014 Compared with 2013

The aggregate net gains (losses) on interest rate swaps were ($2.6) billion for the year ended December 31, 2014 compared to $992.0 million for the same period in 2013. The change was primarily attributable to changes in unrealized gains (losses) reflecting the downward trend in interest rates during the year ended December 31, 2014 compared to rising interest rates for the same period in 2013. The changes in unrealized gains (losses) were partially offset by the reversal of unrealized losses in connection with interest rate swap positions that were terminated in 2014, which resulted in higher realized losses on termination of interest rate swaps during the year ended December 31, 2014 compared to the same period in 2013.

Investment advisory income decreased $12.3 million to $31.3 million for the year ended December 31, 2014, primarily due to lower advisory fees from affiliates and the sale of Merganser Capital Management, Inc. (or Merganser) , a registered investment advisor specializing in managing fixed income securities, to a third party in October 2013.

For the year ended December 31, 2014, we disposed of Investment Securities with a carrying value of $22.5 billion for an aggregate net gain of $94.5 million. We may from time to time sell existing assets to acquire new assets, which our management believes might have higher risk-adjusted returns, or to manage our balance sheet as part of our asset/liability management strategy.

Dividend income from affiliates increased $6.6 million to $25.2 million for the year ended December 31, 2014, due to a $9.0 million special dividend from our investment in Chimera recognized during the first quarter of 2014, partially offset by CreXus Investment Corp. (or CreXus) declaring a dividend during the first quarter of 2013 but not during the same period in 2014 as a result of its acquisition. Chimera is and CreXus was managed by our wholly-owned subsidiary FIDAC.

Net gains (losses) on trading assets was ($245.5) million for the year ended December 31, 2014 compared to $1.5 million for the same period in 2013. The change was primarily attributable to higher net losses from interest rate swaptions.

Net unrealized gains (losses) on interest-only Agency mortgage-backed securities was ($86.2) million for the year ended December 31, 2014 compared to $244.7 million for the same period in 2013. The change was primarily attributable to the downward trend in interest rates experienced in 2014 compared to rising interest rates in 2013.

Other income (loss) was ($12.7) million for the year ended December 31, 2014 compared to $15.5 million for the same period in 2013. The change was primarily attributable to a one-time payment made in 2014 by FIDAC to Chimera to resolve issues raised in derivative demand letters sent to Chimera's board of directors.

2013 Compared with 2012

The aggregate net gains (losses) on interest rate swaps were $992.0 million for the years ended December 31, 2013 compared to ($928.4) million for the same period in 2012. The change was primarily attributable to the rise in interest rates experienced in 2013.

Investment advisory income decreased $38.5 million to $43.6 million for the year ended December 31, 2013,

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primarily due to lower advisory fees from affiliates.

For the year ended December 31, 2013, we disposed of Investment Securities with a carrying value of $56.8 billion for an aggregate net gain of $424.1 million.

Dividend income from affiliates decreased $9.8 million to $18.6 million for the year ended December 31, 2013, primarily due to CreXus declaring a dividend for only the first quarter of 2013 as a result of its acquisition.

Net unrealized gains (losses) on interest-only Agency mortgage-backed securities was $244.7 million for the year ended December 31, 2013 compared to ($59.9) million for the same period in 2012. The change was primarily attributable to rising interest rates experienced in 2013.

General and Administrative Expenses

General and administrative (or G&A) expenses consists of compensation expense, the management fee and other expenses.

The table below 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

For the Years Ended:	Total G&A Expenses	Total G&A Expenses/Average Assets	Total G&A Expenses/Average Equity
	(dollars in thousands)		
December 31, 2014	$ 209,338	0.24%	1.61%
December 31, 2013	$ 232,081	0.22%	1.66%
December 31, 2012	$ 235,559	0.19%	1.45%

2014 Compared with 2013

G&A expenses decreased $22.7 million to $209.3 million for the year ended December 31, 2014 compared to the same period in 2013. The decline was attributable to a lower management fee and a decline in other general and administrative expenses, primarily brokerage expenses, in 2014.

2013 Compared with 2012

G&A expenses decreased $3.5 million to $232.1 million for the year ended December 31, 2013 compared to the same period in 2012. The decrease was primarily due to the result of the pro forma adjustment to the management fee which resulted in lower compensation expenses in 2013, partially offset by an increase in other general and administrative expenses which included $7.3 million related to our acquisition of CreXus in 2013.

Unrealized Gains and Losses

With our available-for-sale accounting treatment on our Agency mortgage-backed securities which represent the largest portion of assets on balance sheet, unrealized fluctuations in market values of assets do not impact our GAAP or taxable income 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.

Unrealized Gains and Losses

	As of December 31, 2014	2013
	(dollars in thousands)	
Unrealized gain	$ 950,072	$ 600,034
Unrealized loss	(745,189)	(3,348,967)
Net unrealized gain (loss)	$ 204,883	$ (2,748,933)

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 under our investment policy. A very large negative change in the net fair value of our available-for-sale investment securities might impair our liquidity position, requiring us to sell assets with the likely result of realized losses upon sale.

The fair value of these securities being below amortized cost for the year ended December 31, 2014 is solely due to market conditions and not the quality of the assets. 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 amount of the securities by the respective issuing government agency.

Net Income (Loss) and Return on Average Equity

We recorded a net loss of $842.3 million, which includes a $0.2 million net loss attributable to a noncontrolling interest, for the year ended December 31, 2014 and net income of $3.7 billion and $1.7 billion for the years ended December 31, 2013 and 2012, respectively. Our return (loss) on average equity was (6.49%), 26.70% and 10.71% for the years ended December 31, 2014, 2013 and 2012, respectively.

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

Components of Return on Average Equity

	Economic Net Interest Income/ Average Equity[1]	Net Investment Advisory and Service Fees/Average Equity	Realized and Unrealized Gains and Losses/Average Equity	Other Income (Loss)/Average Equity[2]	G&A Expenses/ Average Equity	Income Taxes/ Average Equity	Return on Average Equity
For the Years Ended:							
December 31, 2014	9.98%	0.24%	(15.16%)	0.10%	(0.24%)	(0.04%)	(6.49%)
December 31, 2013	9.92%	0.31%	18.25%	(0.06%)	(1.66%)	(0.06%)	26.70%
December 31, 2012	10.48%	0.51%	1.22%	0.17%	(1.45%)	(0.22%)	10.71%

(1) Economic net interest income includes interest expense on interest rate swaps.

(2) Other income (loss) includes dividend income from affiliates, impairment of goodwill, loss on previously held equity interest in CreXus and other income (loss).

Financial Condition

Total assets were $88.4 billion and $81.9 billion as of December 31, 2014 and 2013, respectively. The change was primarily due to an $11.2 billion increase in Agency mortgage-backed securities partially offset by a $1.6 billion decrease in Agency debentures.

Investment Securities

Substantially all of our Agency mortgage-backed securities at December 31, 2014 and 2013 were backed by single-family mortgage loans. Substantially all of the mortgage assets underlying these mortgage-backed securities 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, 2014, and 2013 we had on our Consolidated Statements of Financial Condition a total of $19.6 million and $25.7 million, respectively, of unamortized discount (which is the difference between the remaining principal value and current amortized cost of our Investment Securities acquired at a price below principal value) and a total of $5.4 billion and $4.6 billion, respectively, of unamortized premium (which is the difference between the remaining principal value and the current amortized cost of our Investment Securities acquired at a price above principal value).

We received mortgage principal repayments of $8.3 billion and $21.7 billion for the years ended December 31, 2014 and 2013, respectively. The weighted average experienced prepayment speed for the years ended December 31, 2014 and 2013 was 8% and 14%, 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.

The table below summarizes certain characteristics of our Agency mortgage-backed securities and Agency debentures and interest-only securities, as of the dates presented. The index level for adjustable-rate Agency mortgage-backed securities and Agency debentures is the weighted average rate of the various short-term interest rate indices, which determine the coupon rate.

	December 31, 2014	December 31, 2013
	(dollars in thousands)	
Agency Mortgage-Backed Securities and Agency Debentures:		
Principal Amount	$ 77,391,804	$ 71,430,069
Net Premium	4,118,679	3,558,168
Amortized Cost	81,510,483	74,988,237
Amortized Cost/Principal Amount	105.32%	104.98%
Carrying Value	81,711,172	72,238,708
Carrying Value / Principal Amount	105.58%	101.13%
Weighted Average Coupon Rate	3.69%	3.62%
Weighted Average Yield	2.81%	2.89%
Adjustable-Rate Agency Mortgage-Backed Securities and Agency Debentures:		
Principal Amount	$ 3,870,609	$ 6,719,599
Weighted Average Coupon Rate	2.82%	2.81%
Weighted Average Yield	2.73%	2.80%
Weighted Average Term to Next Adjustment	35 Months	33 Months
Weighted Average Lifetime Cap	7.95%	6.44%
Principal Amount at Period End as % of Total Investment Securities	5.00%	9.41%
Fixed-Rate Agency Mortgage-Backed Securities and Agency Debentures:		
Principal Amount	$ 73,521,195	$ 64,710,470
Weighted Average Coupon Rate	3.73%	3.71%
Weighted Average Yield	2.82%	2.90%
Principal Amount at Period End as % of Total Investment Securities	95.00%	90.59%
Agency Interest-Only Mortgage-Backed Securities:		
Notional Amount	$ 8,008,538	$ 7,374,675
Net Premium	1,230,471	1,041,990
Amortized Cost	1,230,471	1,041,990
Amortized Cost/Notional Amount	15.36%	14.13%
Carrying Value	1,222,434	1,120,126
Carrying Value/Notional Amount	15.26%	15.19%
Weighted Average Coupon Rate	4.00%	3.82%
Weighted Average Yield	7.29%	9.00%

At December 31, 2014 and 2013, we held Agency mortgage-backed securities and Agency debentures, excluding interest-only securities, with coupons linked to various indices. The following tables detail the portfolio characteristics by index.

Adjustable-Rate Agency Mortgage-Backed Securities and Agency Debentures by Index
December 31, 2014

	Six-Month Libor	Twelve Month Libor	12-Month Moving Average	11th District Cost of Funds	1-Year Treasury Index	Other Indices[(1)]
Weighted average term to next adjustment	4 mo.	50 mo.	1 mo.	1 mo.	12 mo.	22 mo.
Weighted average annual period cap	1.75%	2.00%	-	-	2.00%	-
Weighted average lifetime cap at September 30, 2014	11.28%	9.58%	9.15%	10.71%	10.72%	4.28%
Investment principal value as percentage of Investment Securities at December 31, 2014	0.19%	2.73%	0.13%	0.18%	0.12%	1.65%

(1) Combination of indices that account for less than 0.05% of total or adjust over time, without a reset index.

Adjustable-Rate Agency Mortgage-Backed Securities and Agency Debentures by Index
December 31, 2013

	Six-Month Libor	Twelve Month Libor	12-Month Moving Average	11th District Cost of Funds	1-Year Treasury Index	Other Indices[(1)]
Weighted average term to next adjustment	4 mo.	40 mo.	1 mo.	1 mo.	18 mo.	34 mo.
Weighted average annual period cap	1.78%	2.00%	-	-	2.00%	-
Weighted average lifetime cap at December 31, 2013	11.20%	9.81%	7.36%	10.80%	10.74%	2.36%
Investment principal value as percentage of Investment Securities at December 31, 2013	0.40%	4.04%	0.28%	0.23%	0.18%	4.28%

(1) Combination of indices that account for less than 0.05% of total or adjust over time, without a reset index.

Contractual Obligations

The following table summarizes the effect on our liquidity and cash flows from contractual obligations for repurchase agreements, Convertible Senior Notes, interest expense on repurchase agreements and Convertible Senior Notes, securitized debt of consolidated VIE, mortgages payable, participation sold, the non-cancelable office leases and employment agreements as of December 31, 2014. 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. As of December 31, 2014, the interest rate swaps had a net negative fair value of $1.5 billion.

	Within One Year	One to Three Years	Three to Five Years	More than Five Years	Total
	(dollars in thousands)				
Repurchase agreements	$60,562,124	$ 10,699,802	$ 100,000	$ -	$71,361,926
Interest expense on repurchase agreements[(1)]	231,706	178,285	3,863	-	413,854
Convertible Senior Notes (principal)	857,541	-	-	-	857,541
Interest expense on Convertible Senior Notes	14,600	-	-	-	14,600
Securitized debt of consolidated VIE (principal)	153,954	106,746	-	-	260,700
Mortgages payable (principal)	334	18,772	23,375	103,950	146,431
Participation sold (principal)	296	13,138	-	-	13,434
Long-term operating lease obligations	888	7,169	7,129	22,291	37,477
Total	$61,821,443	$ 11,023,912	$ 134,367	$ 126,241	$73,105,963

We had no material unfunded loan commitments as of December 31, 2014.

In the coming periods, we expect to continue to finance our Agency mortgage-backed securities in a manner that is largely consistent with our current operations via repurchase agreements. We may use Federal Home Loan

Bank of Des Moines (FHLB Des Moines) advances, securitization structures, mortgages payable or other term financing structures to finance certain of our assets. During the year ended December 31, 2014, we received \$8.3 billion from principal repayments and \$22.7 billion in cash from disposal of Investment Securities. During the year ended December 31, 2013, we received \$21.7 billion from principal repayments and \$56.5 billion in cash from disposal of Investment Securities.

Off-Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Further, we have not guaranteed any obligations of unconsolidated entities nor do we have any commitment or intent to provide funding to any such entities. As such, we are not materially exposed to any market, credit, liquidity or financing risk that could arise if we had engaged in such relationships.

Capital Management

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

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

Our objective is to maintain an active ICAAP that reflects sound governance, requires active assessment and reporting of internal capital adequacy, incorporates stress testing based on internal and external factors and identifies potential capital actions to ensure our capital and available financial resources remain in excess of internal capital requirements.

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

Economic capital is our internal quantification of the risks inherent in our business and considers the amount of capital we need as a buffer to protect against risks. It is considered the capital needed to remain solvent under extreme scenarios. It is a probabilistic measure of potential future losses at a given confidence level over a given time horizon.

The major risks impacting capital applicable to us are liquidity, investment/market, credit, counterparty, operational, and other risks such as compliance, legal and regulatory risks. For further discussion of the risks we are subject to, please see Part I, Item 1A. "Risk Factors" of our most recent annual report on Form 10-K.

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

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

- Common and preferred equity
- Other forms of equity-like capital
- Surplus credit reserves over expected losses
- Other loss absorption instruments

In the event we fall short of our internal limits we will take 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.

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Stockholders' Equity

The following table provides a summary of total stockholders' equity as of December 31, 2014 and 2013:

	December 31, 2014	December 31, 2013
Stockholders' Equity:	(dollars in thousands)	
7.875% Series A Cumulative Redeemable Preferred Stock	$ 177,088	$ 177,088
7.625% Series C Cumulative Redeemable Preferred Stock	290,514	290,514
7.50% Series D Cumulative Redeemable Preferred Stock	445,457	445,457
Common stock	9,476	9,474
Additional paid-in capital	14,786,509	14,765,761
Accumulated other comprehensive income (loss)	204,883	(2,748,933)
Accumulated deficit	(2,585,436)	(534,306)
Total stockholders' equity	$ 13,328,491	$ 12,405,055

Common and Preferred Stock

The following table provides a summary of options activity for the periods presented:

	Options Exercised	Aggregate Exercise Price	Shares Issued Through Direct Purchase	Amount Raised from Direct Purchase and Dividend Reinvestment Program
For the Years Ended:			(dollars in millions)	
December 31, 2014	-	$ -	210,000	$ 2.4
December 31, 2013	166,000	2.2	219,000	2.9
December 31, 2012	603,000	8.4	170,000	2.8

During the year ended December 31, 2012, 1.3 million shares of 6.00% Series B Cumulative Convertible Preferred Stock (or Series B Preferred Stock) were converted into 4.0 million shares of common stock.

In March 2012, we entered into six separate Distribution Agency Agreements (or Distribution Agency Agreements) with each of Merrill Lynch, Pierce, Fenner & Smith Incorporated, Credit Suisse Securities (USA) LLC, Goldman, Sachs & Co., J.P. Morgan Securities LLC, Morgan Stanley & Co. LLC and RCap (together, the Agents). Pursuant to the terms of the Distribution Agency Agreements, we may sell from time to time through the Agents, as our sales agents, up to 125,000,000 shares of our common stock. We did not make any sales under the Distribution Agency Agreements during the years ended December 31, 2014, 2013 and 2012.

Distributions to Stockholders

Our policy is to distribute 100% of our REIT taxable income. To the extent there is any undistributed REIT taxable income at the end of a year, we distribute such shortfall within the next year as permitted by the Code. REIT taxable income will differ from GAAP net income (loss) due to timing differences, such as the amortization/accretion of premiums/discounts from purchases of Investment Securities and unrealized gains (losses) included in net income (loss).

We seek to generate income for distribution to our stockholders, typically by earning a spread between the yield on our assets and the cost of our borrowings. Our REIT taxable income, which serves as the basis for distributions to our stockholders, is generated primarily from this spread income.

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

	For the Years Ended:		
	December 31, 2014	December 31, 2013	December 31, 2012
	(dollars in thousands, except per share data)		
Dividends declared to common stockholders	$ 1,137,079	$ 1,420,856	$ 1,989,690
Dividends declared per common share	$ 1.20	$ 1.50	$ 2.05
Dividends paid to common stockholders after period end	$ 284,293	$ 284,230	$ 432,153
Dividends paid per common share after period end	$ 0.30	$ 0.30	$ 0.45
Date of dividends paid to common stockholders after period end	January 29, 2015	January 31, 2014	January 29, 2013
Dividends declared to Series A Preferred stockholders	$ 14,593	$ 14,593	$ 14,593
Dividends declared per Series A Preferred share	$ 1.97	$ 1.97	$ 1.97
Dividends declared to Series B Preferred stockholders	$ -	$ -	$ 289
Dividends declared per Series B Preferred share	$ -	$ -	$ 0.375
Dividends declared to Series C Preferred stockholders	$ 22,875	$ 22,875	$ 14,297
Dividends declared per Series C Preferred share	$ 1.91	$ 1.91	$ 1.19
Dividends declared to Series D Preferred stockholders	$ 34,500	$ 34,500	$ 10,351
Dividends declared per Series D Preferred share	$ 1.88	$ 1.88	$ 0.56

Leverage and Capital

We believe that it is prudent to maintain a conservative debt-to-equity ratio as there continues to 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 a ratio of debt-to-equity of less than 12:1. Our actual leverage 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 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 (including securitized debt of consolidated VIE, loan participation sold and mortgages payable which are non-recourse to us, subject to customary carveouts) at December, 31, 2014 and 2013 was 5:4:1 and 5.0:1, respectively. Our capital ratio, which represents our ratio of stockholders’ equity to total assets, was 15.1% and 15.1% at December 31, 2014 and 2013, 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 measure, monitor and manage 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 culture throughout Annaly focused on awareness which ensures the key risks are understood and managed appropriately. Each employee is accountable for monitoring and managing risk within their area of responsibility.

Risk Appetite

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

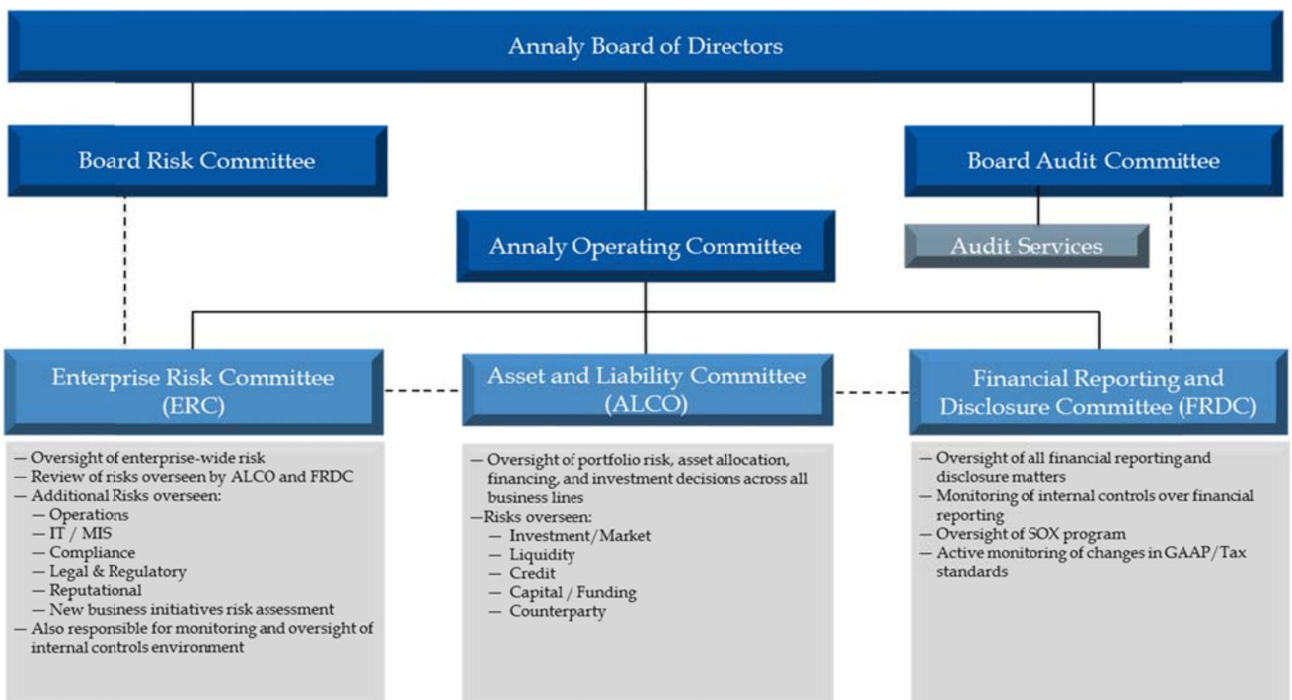
The risk appetite statement asserts to key parameters to guide our risk management activities. For a full discussion of our risk parameters, refer to the section titled “Business Overview” of Item 1 “Business.”

Governance

Risk management begins with our board of directors, 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 of directors exercises its oversight of risk management primarily through the Board Risk Committee (or BRC) and Board Audit Committee (or BAC). The BRC is responsible for oversight of our risk governance structure, risk management and risk assessment guidelines and policies, our risk tolerance and our capital, liquidity and funding. 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 have oversight or decision-making responsibilities for risk management activities. Memberships of these committees are reviewed regularly to ensure the appropriate personnel are engaged in the risk management process. Three 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, Asset and Liability Committee and the Financial Reporting and Disclosure Committee.

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.



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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
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.
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 invested securities and other investment instruments.
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. This risk is present in lending, investing, funding and hedging activities.
Operational Risk	Risk to earnings, capital, reputation or business arising from inadequate or failed internal processes or systems, human factors or external events. Model risk is included in operational risk.
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.

Liquidity Risk Management

Our liquidity 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 liquidity risk management practices consist of the following primary elements:

Funding	Availability of diverse and stable sources of funds.
Excess Liquidity	Excess liquidity primarily in the form of unencumbered assets.
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 and various forms of equity. Through the judicious use of leverage, we maintain excess liquidity through investing in high quality unencumbered assets, which serve as our capital buffer.

Repurchase agreements are our primary source of debt financing. We conservatively manage our repurchase agreement (or repo) funding position through a variety of methods including diversity, breadth and depth of counterparties and maintaining a staggered and longer-term maturity profile. We have not at the present time entered into any commitment agreements under which the lender would be required to enter into new repurchase agreements during a specified period of time.

Our repos 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 mortgage-backed securities and/or market interest rates suddenly increase leading to market value declines, resulting margin calls may cause an adverse change in our liquidity position.

At December 31, 2014, we had total financial instruments and cash pledged as collateral for repurchase agreements and interest rate swaps of $77.0 billion. The weighted average haircut was approximately 4% on repurchase agreements. The quality and character of the Agency mortgage-backed securities that we pledge as collateral under the repurchase agreements and interest rate swaps did not materially change during the year ended December 31, 2014 compared to the year ended December 31, 2013, 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, 2014.

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

	Repurchase Agreements		Reverse Repurchase Agreements	
	Average Daily Amount Outstanding	Ending Amount Outstanding	Average Daily Amount Outstanding	Ending Amount Outstanding
Quarters Ended:	(dollars in thousands)			
December 31, 2014	$ 72,117,895	$ 71,361,926	$ 10,870	$ 100,000
September 30, 2014	71,312,473	69,610,722	-	-
June 30, 2014	70,133,219	70,372,218	227,640	-
March 31, 2014	64,443,248	64,543,949	379,042	444,375
December 31, 2013	67,509,177	61,781,001	345,470	100,000
September 30, 2013	76,265,080	69,211,309	217,693	31,074
June 30, 2013	93,250,767	81,397,335	2,569,531	171,234
March 31, 2013	106,440,476	100,322,942	3,425,546	4,933,465

At December 31, 2014, the repurchase agreements outstanding had weighted average remaining maturities of 141 days and the following remaining maturities and weighted average rates:

	December 31, 2014		
	Repurchase Agreements	Weighted Average Rate	% of Total
	(dollars in thousands)		
1 day	$ -	0.00%	0.0%
2 to 29 days	28,354,167	0.35%	39.7%
30 to 59 days	17,336,469	0.43%	24.3%
60 to 89 days	4,040,677	0.38%	5.7%
90 to 119 days	2,945,495	0.50%	4.1%
Over 120 days(1)	18,685,118	1.24%	26.2%
Total	$ 71,361,926	0.61%	100.0%

(1) Approximately 15% of the total repurchase agreements had a remaining maturity over 1 year.

Excess Liquidity

Our primary source of liquidity is the availability of unencumbered assets which may be provided as collateral to support additional funding needs. We target minimum thresholds of available, unencumbered assets to maintain excess liquidity. The following table illustrates our asset portfolio available to support potential collateral obligations and funding needs. Assets are considered encumbered if pledged as collateral against an existing liability, and therefore no longer available to support additional funding. An asset is considered unencumbered if it has not been pledged or securitized. The following table provides the carrying amount of our encumbered and unencumbered financial assets as of December 31, 2014:

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	Encumbered Assets	Unencumbered Assets	Total
	(dollars in thousands)		
Financial Assets:			
Cash and cash equivalents	$ 1,584,701	$ 156,543	$ 1,741,244
Investments, at fair value:(1)			
Agency mortgage-backed securities	74,006,480	8,290,488	82,296,968
Agency debentures	1,368,350	-	1,368,350
Commercial real estate debt and preferred equity	398,634	1,119,531	1,518,165
Corporate debt	-	166,464	166,464
Total financial assets	$ 77,358,165	$ 9,733,026	$ 87,091,191

(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.

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 considered as well and is subject to certain parameters. The composition is monitored for concentration risk, asset type and ratings. We believe the assets we consider liquid can be readily converted into cash, through liquidation or used as collateral in financing arrangements (including certain collateral currently supporting 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 as of December 31, 2014.

Liquid Assets	Carrying Value(1)
	(dollars in thousands)
Cash and cash equivalents	$ 1,741,244
Investment Securities(2)	83,665,318
Total liquid assets	$ 85,406,562
Percentage of liquid assets to total assets	96.66%

(1) Carrying value represents the market value of assets. The assets listed in this table include $77.0 billion of assets that have been pledged as collateral against existing liabilities as of December 31, 2014. 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.

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 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 maturities and cash flows of our assets, liabilities and derivatives. The table is based on a static portfolio and assumes no reinvestment of asset cash flows and no future liabilities are entered into. In assessing the maturity of our assets, liabilities and off balance sheet obligations we use the stated maturities or prepayment expectations for assets that exhibit prepayment characteristics. Cash and cash equivalents are included in the 'within 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 an institution 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 for 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, which 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 table below 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	$ 1,741,244	$ -	$ -	$ -	$ 1,741,244
Reverse repurchase agreements	100,000	-	-	-	100,000
Agency Mortgage-backed securities (principal)	3,648	38,184	1,521,631	74,419,536	75,982,999
Agency debentures (principal)	-	-	-	1,408,805	1,408,805
Corporate debt (principal)	-	-	10,036	157,979	168,015
Commercial real estate debt and preferred equity (principal)	28,457	511,510	684,946	296,059	1,520,972
Total financial assets	**$ 1,873,349**	**$ 549,694**	**$ 2,216,613**	**$ 76,282,379**	**$ 80,922,035**
Financial Liabilities:					
Repurchase agreements	$ 49,731,313	$ 10,830,811	$ 10,699,802	$ 100,000	$ 71,361,926
Convertible Senior Notes (principal)	107,541	750,000	-	-	857,541
Securitized debt of consolidated VIE (principal)	-	153,954	106,746	-	260,700
Participation sold (principal)	76	220	13,138	-	13,434
Total financial liabilities	**$ 49,838,930**	**$ 11,734,985**	**$ 10,819,686**	**$ 100,000**	**$ 72,493,601**
Maturity gap	$ (47,965,581)	$ (11,185,291)	$ (8,603,073)	$ 76,182,379	$ 8,428,434
Cumulative maturity gap	$ (47,965,581)	$ (59,150,872)	$ (67,753,945)	$ 8,428,434	
Interest rate sensitivity gap	$ (15,682,226)	$ (10,118,428)	$ (11,556,723)	$ 45,785,811	$ 8,428,434
Cumulative rate sensitivity gap	$ (15,682,226)	$ (25,800,654)	$ (37,357,377)	$ 8,428,434	
Cumulative rate sensitivity gap as a % of total rate sensitive assets	(19.38%)	(31.88%)	(46.16%)	10.42%	

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.

Liquidity Management Policies

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

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

Stress Testing

We utilize liquidity stress testing to ensure we have sufficient liquidity under a variety of scenarios and stresses. These stress tests are considered and 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.

Investment/Market Risk Management

One of the primary risks we are subject to is interest rate 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 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. 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 increase or decrease by 25, 50 or 75 basis points, and the effect of portfolio market value if mortgage option-adjusted spreads increase or decrease by 5, 15 or 25 basis points (assuming shocks are parallel and instantaneous). All changes to income and portfolio market value are measured as percentage changes from the projected net interest income and portfolio value at the base interest rate scenario. The base interest rate scenario assumes interest rates at December 31, 2014 and various estimates regarding prepayments and all activities are made at each level of rate shock. Actual results could differ significantly from these estimates.

Change in Interest Rate	Projected Percentage Change in Economic Net Interest Income (1)	Estimated Percentage Change in Portfolio Value (2)	Estimated Change as a % on NAV (2)(3)
-75 Basis Points	(10.6%)	0.2%	1.3%
-50 Basis Points	(3.5%)	0.3%	1.8%
-25 Basis Points	(1.9%)	0.2%	1.4%
Base Interest Rate	-	-	-
+25 Basis Points	1.2%	(0.3%)	(2.0%)
+50 Basis Points	2.6%	(0.7%)	(4.7%)
+75 Basis Points	2.6%	(1.2%)	(8.0%)

MBS Spread Shock	Estimated Change in Portfolio Market Value	Estimated Change as a % on NAV (2)(3)
-25 Basis Points	1.2%	7.7%
-15 Basis Points	0.7%	4.6%
-5 Basis Points	0.2%	1.6%
Base Interest Rate	-	-
+5 Basis Points	(0.2%)	(1.4%)
+15 Basis Points	(0.7%)	(4.4%)
+25 Basis Points	(1.1%)	(7.4%)

(1) Scenarios include Investment Securities, repurchase agreements and interest rate swaps only. Economic net interest income includes interest expense on interest rate swaps.

(2) Scenarios include Investment Securities and derivative instruments.

(3) NAV represents book value of equity.

Credit and Counterparty Risk Management

Key risk parameters have been established to specify Annaly's credit risk appetite. We will maintain a high quality asset portfolio with at least 75% of the portfolio to be high quality mortgage-backed securities and short term investments (equivalency rating of AA+ or better), and an aggregate weighted average equivalency rating of single "A" or better.

While we do not expect to encounter credit risk in our Agency investments, we face credit risk on the non-Agency portions of our portfolio. We are exposed to credit risk on commercial real estate investments and corporate debt. We generally face more credit risk on investments where we hold subordinated debt or equity positions. We are exposed to risk of loss if an issuer, borrower or counterparty fails to perform its contractual obligations. We have 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 counterparties, borrowers and issuers. We only 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 and determine the appropriate allocation of capital to apply to each investment under our capital policy. Our management will monitor the overall portfolio risk and determine estimates of provision for loss. Our portfolio composition as of December 31, 2014 and December 31, 2013 was as follows:

Asset Portfolio (using balance sheet values)

Category	2014	2013
Agency mortgage-backed securities(1)	96.2%	93.7%
Agency debentures	1.6%	4.0%
Commercial real estate debt and equity investments(2)	2.0%	2.1%
Other mortgage-backed-securities	0.0%	0.0%
Corporate debt, held for investment	0.2%	0.2%

(1) Including TBAs held for delivery.

(2) Net of unamortized origination fees.

Our use of repurchase and derivative agreements create exposure to credit 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 Agency securities are financed with repurchase agreements by pledging our agency securities as collateral to the lender. The collateral we pledge 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 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 exceeds 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.

The following table summarizes our exposure to counterparties by geography as of December 31, 2014:

Country	Number of Counterparties	Repurchase Agreement Financing	Interest Rate Swaps at Fair Value	Exposure [(1)]
		(dollars in thousands)		
North America	17	$ 49,751,635	$ (1,157,868)	$ 2,993,453
Europe	10	17,710,251	(375,193)	943,289
Asia (non-Japan)	1	627,059	-	34,339
Japan	4	3,272,981	-	190,091
Total	32	$ 71,361,926	$ (1,533,061)	$ 4,161,172

(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 which cover topics such as business continuity, personal conduct and vendor management. Other tools include training on topics such as cyber security awareness; testing, including disaster recovery testing; systems controls, including access controls; 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, an independent operational risk group which reports to the Chief Risk Officer of our Manager, testing by our internal audit staff, and our overall governance framework.

Compliance, Regulatory and Legal Risk Management

Our business is organized as a REIT and 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. Accordingly, we closely monitor our REIT status within our risk management program. The financial services industry is highly regulated and continues to receive increasing 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, monitor and manage these risks under the oversight of the Enterprise Risk Committee.

We currently rely on the exemption from registration provided by Section 3(c)(5)(C) of the Investment Company Act and we plan 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 the 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 Enterprise Risk Committee.

As a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the U.S. Commodity Futures Trading Commission (or 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 (or CPO), and, absent relief from the Division or the Commission, 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 to claim the relief are that the mortgage real estate investment trust 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 that the CFTC's position that mortgage real estate investment trusts 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 which 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

Agency mortgage-backed securities and debentures

There is an active market for Agency mortgage-backed securities and debentures. Since we primarily invest in securities that can be measured from actively quoted prices, there is a high degree of observable inputs and less subjectivity in measuring fair value. Internal market values are determined using quoted prices from the To-Be-Announced (or TBA) security market, the Treasury curve and the underlying characteristics of the individual securities, which may include coupon, periodic and life caps, reset dates and the expected life of the security. Prepayment rates are difficult to predict and are a significant estimate requiring judgment in the valuation of Agency mortgage-backed securities. All internal market 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.

Interest rate swaps

We use the overnight indexed swap (or OIS) curve as an input to value substantially all of our 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 interest rate swaps. Consistent with market practice, we have negotiated agreements with certain counterparties to exchange collateral (or margining) based on the level of fair values of the interest rate swaps. Through this margining process, one party or each party to a derivative contract provides the other party with information about the fair value of the derivative contract to calculate the amount of collateral required, providing additional verification of our recorded fair value of the interest rate swaps.

Revenue Recognition

Interest income from coupon payments is accrued based on the outstanding principal amounts of the Investment Securities and their contractual terms. Premiums and discounts associated with the purchase of the Investment Securities are amortized or accreted into interest income over the projected lives of the securities using the interest method. We use a third-party supplied model to project prepayment speeds. Our prepayment speed projections incorporate underlying loan characteristics (e.g., coupon, term, original loan size, original loan to value, 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. Adjustments are made for actual prepayment activity as it relates to calculating the effective yield. Gains or losses on investment securities are recorded on trade date based on the average cost of the security.

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 obligation to absorb losses that could be potentially significant to the VIE.

Use of Estimates

The use of GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Glossary of Terms

A

Adjustable-Rate Mortgage (ARM)
A mortgage loan on which interest rates are adjusted at regular intervals according to predetermined criteria. An ARM's 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 Debentures
Debt issued by a federal agency or a government-sponsored enterprise (GSE) for financing purposes. These types of debentures are not backed by collateral, but by the integrity and credit worthiness of the issuer. Agency debentures issued by a GSE are backed only by that GSE's ability to pay. The callable feature allows the agency to repay the bond prior to maturity.

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 (BPs)
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.

Bond
(1) 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. (2) For purposes of computations tied in to "per bond," a $1,000 increment of an issue is used (no matter what the actual denominations are); (3) 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 on its own account.

C

Capital Buffer
Includes unencumbered financial assets which can be utilized as collateral to meet liquidity needs.

Capital Ratio
Calculated as total stockholders' equity divided by total assets.

Collateral
Securities, cash or property pledged by a borrower or

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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 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.

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.

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

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

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

Core Earnings and Core Earnings Per Basic Share
Non-GAAP measure that is defined as net income (loss) excluding gains or losses on disposals of investments and termination of interest rate swaps, unrealized gains or losses on interest rate swaps and Agency interest-only mortgage-backed securities, net gains and losses on trading assets, impairment losses, net income (loss) attributable to noncontrolling interest and certain other non-recurring gains or losses.

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.

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.

D

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

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

Derivative
A financial product that derives its value from the price, price fluctuations and price expectations of an underlying instrument (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 composed of GAAP interest expense adjusted for realized gains or losses on interest rate swaps.

Economic Net Interest Income
Non-GAAP financial measure that is composed of GAAP net interest income adjusted for realized gains or losses on interest rate swaps.

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

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.

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

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
Accounting principles generally accepted in the United States of America.

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, convertible senior notes, securitized debt of consolidated VIE, participation sold, FHLB Des Moines advances, U.S. Treasury securities sold, not yet purchased and securities loaned. Average Interest Bearing Liabilities is based on daily balances.

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Interest Earning Assets
Refers to Investment Securities, securities borrowed, U.S. Treasury securities, reverse repurchase agreements, cash and cash equivalents and commercial real estate debt and preferred equity interests. Average Interest Earning Assets is based on daily balances.

Interest Only (IO) Bond
The interest portion of mortgage, Treasury or bond payments, which is separated and sold individually from the principal portion of those same payments.

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

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

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

Internal Capital Adequacy Assessment Program (ICAAP)
The ongoing assessment and measurement of risks, and the amount of capital which is necessary to hold against those risks. The objective is to ensure that a firm is appropriately capitalized relative to the risks in its business.

International Swaps and Derivatives Association (ISDA) Master Agreement
Standardized contract developed by ISDA used as an umbrella under which bilateral derivatives contracts are entered into.

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

Investment/Market Risk
Risk to earnings, capital or business resulting in the decline in value of our assets caused from changes in market variables, such as interest rates, which affect the values of invested securities and other investment instruments.

Investment Securities
Refers to Agency mortgage-backed securities and Agency debentures.

L

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

Leverage Ratio
Calculated as total debt to total stockholders' equity. For purposes of calculating this ratio total debt includes repurchase agreements, Convertible Senior Notes and non-recourse securitized debt of consolidated VIE, loan participation sold and mortgages payable.

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 Debt
Debt which matures in more than one year.

M

Master Netting Agreement
An agreement between two counterparties who have multiple derivative contracts or repurchase / reverse repurchase agreements with each other that provides for the net settlement of all contracts, as well as cash collateral, through a single payment, in a single currency, in the event of default on or termination of any one contract.

Monetary Policy
Action taken by the Board of Governors 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.

N

NAV
Net asset value.

Net Equity Yield
Calculated using GAAP net income, excluding depreciation and amortization expense, divided by average net equity.

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

Net Interest Margin
Represents annualized economic net interest income, inclusive of interest expense on interest rate swaps, divided by average Interest Earning Assets.

Net Interest Spread
Calculated by taking the average yield on interest earning assets minus the average cost of interest bearing liabilities, including the net interest payments on interest rate swaps.

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

O

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.

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

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

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

Over-The-Counter (OTC) Market
A securities market that is conducted by dealers throughout the country through negotiation of price rather than through the use of an auction system as represented by a stock exchange.

P

Pass Through Security
The 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.

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.

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.

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.

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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 heavy prepayments of mortgage or other loans, forcing the investor to reinvest at lower prevailing rates.

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

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.

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

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.

Residual
In a CMO, the residual is that tranche which 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. From the customer's perspective, the customer 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.

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, an individual investor 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, Agency debentures, commercial real estate investments, other mortgage-backed securities and corporate debt.

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

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

Total Return Swap
A derivative instrument where one party makes payments at a predetermined rate (either fixed or variable) while receiving a return on a specific asset

(generally an equity index, loan or bond) held by the counterparty.

U

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

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; 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.

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

W

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

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

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

Y

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

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 and implemented, (1) were effective in ensuring that information regarding the Company and its subsidiaries is accumulated and communicated to our management, including our CEO and CFO, by our employees, as appropriate to allow timely decisions regarding required disclosure and (2) were effective in providing reasonable assurance that information the Company must disclose in its periodic reports under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods prescribed by the SEC’s rules and forms.

There have been no changes in our internal controls over financial reporting that occurred during the quarter ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

Management Report On Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) under the Securities Exchange Act as a process designed by, or under the supervision of, the Company’s principal executive and principal financial officers and effected by the Company’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 the Company;
- 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
- 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. 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.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2014. In making this assessment, the Company's management used criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission's (or COSO) Internal Control-Integrated Framework (2013).

Based on management's assessment management believes that as of December 31, 2014, the Company's internal control over financial reporting was effective based on those criteria. The Company's independent registered public accounting firm, Ernst and Young LLP, has issued an attestation report on the Company's internal control over financial reporting, which is included herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited Annaly Capital Management, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2014, 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). Annaly Capital Management, Inc. and Subsidiaries' 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 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 conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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.

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.

In our opinion, Annaly Capital Management, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial condition of Annaly Capital Management, Inc. and Subsidiaries as of December 31, 2014 and 2013, and 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, 2014 of Annaly Capital Management Inc. and Subsidiaries and our report dated February 26, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, NY
February 26, 2015

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, 2014. 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, 2014.

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. If we make substantive amendments to this Code of Business Conduct and Ethics or grant any waiver, including any implicit waiver, we intend to disclose these events 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, 2014.

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, 2014.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 12 is incorporated herein by reference to the proxy statement to be filed with the SEC within 120 days after December 31, 2014.

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, 2014.

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, 2014.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this report:

1. Financial Statements.

2. Schedules to Financial Statements:

All financial statement schedules not included have been omitted because they are either inapplicable or the information required is provided in our Financial Statements and Notes thereto, included in Part II, Item 8, of this annual report on Form 10-K.

3. Exhibits:

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 with the Securities and Exchange Commission on 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 with the Securities and Exchange Commission on 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 Form 8-K (filed with the Securities and Exchange Commission on 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 Form 10-Q (filed with the Securities and Exchange Commission on 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 Form 8-K (filed with the Securities and Exchange Commission on June 23, 2011)).
3.6	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 8-A filed April 1, 2004).
3.7	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 8-K filed October 4, 2004).
3.8	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 8-K filed April 10, 2006).
3.9	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).
3.10	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).
3.11	Amended and Restated Bylaws of the Registrant, as amended (incorporated by reference to Exhibit 3.1 of the Registrant's Form 8-K (filed with the Securities and Exchange Commission

	on March 22, 2011)).
3.12	Amendment to the Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit 3.12 of the Registrant's Quarterly Report on Form 10-Q filed on August 8, 2013).
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 with the Securities and Exchange Commission on 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 with the Securities and Exchange Commission on December 5, 2001).
4.3	Specimen Series A Preferred Stock Certificate (incorporated by reference to Exhibit 4.1 of the Registrant's Registration Statement on Form 8-A filed with the SEC on April 1, 2004).
4.4	Specimen Series B Preferred Stock Certificate (incorporated by reference to Exhibit 4.1 to the Registrant's Form 8-K filed with the Securities and Exchange Commission on April 10, 2006).
4.5	Specimen Series C Preferred Stock Certificate (incorporated by reference to Exhibit 4.1 to the Registrant's Form 8-K filed with the Securities and Exchange Commission on May 16, 2012).
4.6	Specimen Series D Preferred Stock Certificate (incorporated by reference to Exhibit 4.1 to the Registrant's Form 8-K filed with the Securities and Exchange Commission on September 13, 2012).
4.7	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 Form 8-K filed with the Securities and Exchange Commission on February 12, 2010).
4.8	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 Form 8-K filed with the Securities and Exchange Commission on February 12, 2010).
4.9	Form of 4.00% Convertible Senior Note due 2015 (included in Exhibit 4.8).
4.10	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 Form 8-K filed with the Securities and Exchange Commission on May 14, 2012).
4.11	Form of 5.00% Convertible Senior Note due 2015 (included in Exhibit 4.10).
10.1	Long-Term Stock Incentive Plan (incorporated by reference to Exhibit 10.3 to the Registrant's Registration Statement on Form S-11 (Registration No. 333-32913) filed with the Securities and Exchange Commission on August 5, 1997).*
10.2	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 with the Securities and Exchange Commission on August 5, 1997).
10.3	Management Agreement, effective as of July 1, 2013, by and between the Registrant and Annaly Management Company LLC (incorporated by reference from Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 2, 2013).*
10.4	Amendment No. 1 to Management Agreement, dated as of November 5, 2014, by and between the Registrant and Annaly Management Company LLC (incorporated by reference from Exhibit 10.1 to the Registrant's Form 10-Q filed with the Securities and Exchange Commission on November 6, 2014).*
10.5	Registrant's 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report Form 8-K filed with the SEC on June 1, 2010).*
12. 1	Computation of ratio of earnings to combined fixed charges and preferred stock dividends and ratio of earnings to fixed charges.
21.1	Subsidiaries of Registrant.
23.1	Consent of Ernst & Young LLP.
31.1	Certification of Wellington J. Denahan, Chairman and Chief 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.
31.2	Certification of Glenn A. Votek, Chief Financial Officer (Principal Financial Officer) of the Registrant, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the

	Sarbanes-Oxley Act of 2002.
32.1	Certification of Wellington J. Denahan, Chairman and Chief 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.
32.2	Certification of Glenn A. Votek, Chief Financial Officer (Principal Financial Officer) of the Registrant, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 101.INS XBRL	Instance Document †
Exhibit 101.SCH XBRL	Taxonomy Extension Schema Document †
Exhibit 101.CAL XBRL	Taxonomy Extension Calculation Linkbase Document †
Exhibit 101.DEF XBRL	Additional Taxonomy Extension Definition Linkbase Document Created†
Exhibit 101.LAB XBRL	Taxonomy Extension Label Linkbase Document †
Exhibit 101.PRE XBRL	Taxonomy Extension Presentation Linkbase Document †

* Exhibit Numbers 10.1, 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. Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Financial Condition at December 31, 2014 and December 31, 2013; (ii) Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2014, 2013 and 2012; (iii) Consolidated Statements of Stockholders' Equity for the years ended December 31, 2014, 2013 and 2012; (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012; and (v) Notes to Consolidated Financial Statements. Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities and Exchange Act of 1934, and otherwise is not subject to liability under these sections.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Item 15. Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated statements of financial condition of Annaly Capital Management, Inc. and Subsidiaries (the “Company”) as of December 31, 2014 and 2013, and 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, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Annaly Capital Management, Inc. and Subsidiaries at December 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, 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), Annaly Capital Management, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2014, 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 26, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

February 26, 2015

Item 15. Financial Statements

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

	December 31, 2014	December 31, 2013
ASSETS		
Cash and cash equivalents (including cash pledged as collateral of $1,584,701 and $371,790, respectively)	$ 1,741,244	$ 552,436
Reverse repurchase agreements	100,000	100,000
Securities borrowed	-	2,582,893
Investments, at fair value:		
U.S. Treasury securities (including pledged assets of $0 and $1,113,027, respectively)	-	1,117,915
Agency mortgage-backed securities (including pledged assets of $74,006,480 and $63,897,873, respectively)	81,565,256	70,388,949
Agency debentures (including pledged assets of $1,368,350 and $2,931,261, respectively)	1,368,350	2,969,885
Investment in affiliates	143,045	139,447
Commercial real estate debt and preferred equity[(1)]	1,518,165	1,583,969
Investments in commercial real estate	210,032	60,132
Corporate debt, held for investment	166,464	117,687
Receivable for investments sold	1,010,094	1,193,730
Accrued interest and dividends receivable	278,489	273,079
Receivable for investment advisory income (including from affiliates of $10,402 and $6,839, respectively)	10,402	6,839
Goodwill	94,781	94,781
Interest rate swaps, at fair value	75,225	559,044
Other derivatives, at fair value	5,499	146,725
Other assets	68,321	34,949
Total assets	$ 88,355,367	$ 81,922,460
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
U.S. Treasury securities sold, not yet purchased, at fair value	$ -	$ 1,918,394
Repurchase agreements	71,361,926	61,781,001
Securities loaned	-	2,527,668
Payable for investments purchased	264,984	764,131
Convertible Senior Notes	845,295	825,262
Securitized debt of consolidated VIE	260,700	-
Mortgages payable	146,553	19,332
Participation sold	13,693	14,065
Accrued interest payable	180,501	160,921
Dividends payable	284,293	284,230
Interest rate swaps, at fair value	1,608,286	1,141,828
Other derivatives, at fair value	8,027	55,518
Accounts payable and other liabilities	47,328	25,055
Total liabilities	75,021,586	69,517,405
Stockholders' Equity:		
7.875% Series A Cumulative Redeemable Preferred Stock: 7,412,500 authorized, issued and outstanding	177,088	177,088
7.625% Series C Cumulative Redeemable Preferred Stock: 12,650,000 authorized, 12,000,000 issued and outstanding	290,514	290,514
7.50% Series D Cumulative Redeemable Preferred Stock: 18,400,000 authorized, issued and outstanding	445,457	445,457
Common stock, par value $0.01 per share, 1,956,937,500 authorized, 947,643,079 and 947,432,862 issued and outstanding, respectively	9,476	9,474
Additional paid-in capital	14,786,509	14,765,761
Accumulated other comprehensive income (loss)	204,883	(2,748,933)
Accumulated deficit	(2,585,436)	(534,306)
Total stockholders' equity	13,328,491	12,405,055
Noncontrolling interest	5,290	-
Total equity	13,333,781	12,405,055
Total liabilities and equity	$ 88,355,367	$ 81,922,460

(1) Includes senior securitized mortgages of consolidated VIE with a carrying value of $398.6 million and $0 at December 31, 2014 and 2013, respectively.

See notes to consolidated financial statements.

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,		
	2014	2013	2012
Net interest income:			
Interest income	$ 2,632,647	$ 2,918,562	$ 3,259,145
Interest expense	512,659	624,714	667,172
Net interest income	2,119,988	2,293,848	2,591,973
Other income (loss):			
Realized gains (losses) on interest rate swaps[1]	(825,360)	(908,294)	(893,769)
Realized gains (losses) on termination of interest rate swaps	(779,333)	(101,862)	(2,385)
Unrealized gains (losses) on interest rate swaps	(948,755)	2,002,200	(32,219)
Subtotal	(2,553,448)	992,044	(928,373)
Investment advisory income	31,343	43,643	82,138
Net gains (losses) on disposal of investments	93,716	403,045	432,139
Net loss on extinguishment of 4% Convertible Senior Notes	-	-	(162,340)
Dividend income from affiliates	25,189	18,575	28,336
Net gains (losses) on trading assets	(245,495)	1,509	22,910
Net unrealized gains (losses) on interest-only Agency mortgage-backed securities	(86,172)	244,730	(59,937)
Impairment of goodwill	-	(23,987)	-
Loss on previously held equity interest in CreXus	-	(18,896)	-
Other income (loss)	(12,737)	15,481	525
Subtotal	(194,156)	684,100	343,771
Total other income (loss)	(2,747,604)	1,676,144	(584,602)
General and administrative expenses:			
Compensation and management fee	155,560	167,366	190,702
Other general and administrative expenses	53,778	64,715	44,857
Total general and administrative expenses	209,338	232,081	235,559
Income (loss) before income taxes	(836,954)	3,737,911	1,771,812
Income taxes	5,325	8,213	35,912
Net income (loss)	(842,279)	3,729,698	1,735,900
Net income (loss) attributable to noncontrolling interest	(196)	-	-
Net income (loss) attributable to Annaly	(842,083)	3,729,698	1,735,900
Dividends on preferred stock	71,968	71,968	39,530
Net income (loss) available (related) to common stockholders	$ (914,051)	$ 3,657,730	$ 1,696,370

Statement continued on following page.

Net income (loss) per share available (related) to common stockholders:			
Basic	$ (0.96)	$ 3.86	$ 1.74
Diluted	$ (0.96)	$ 3.74	$ 1.71
Weighted average number of common shares outstanding:			
Basic	947,539,294	947,337,915	972,902,459
Diluted	947,539,294	995,557,026	1,005,755,057
Dividends declared per share of common stock	$ 1.20	$ 1.50	$ 2.05
Net income (loss)	$ (842,279)	$ 3,729,698	$ 1,735,900
Other comprehensive income (loss):			
Unrealized gains (losses) on available-for-sale securities	3,048,291	(5,378,089)	482,765
Reclassification adjustment for net (gains) losses included in net income (loss)	(94,475)	(424,086)	(438,511)
Other comprehensive income (loss)	2,953,816	(5,802,175)	44,254
Comprehensive income (loss)	2,111,537	(2,072,477)	1,780,154
Comprehensive income (loss) attributable to noncontrolling interest	(196)	-	-
Comprehensive income (loss) attributable to Annaly	$ 2,111,733	$ (2,072,477)	$ 1,780,154

(1) Interest expense related to the Company's interest rate swaps is recorded in Realized losses on interest rate swaps on the Consolidated Statements of Operations and Comprehensive Income (Loss).

See notes to consolidated financial statements.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2014, 2013, AND 2012
(dollars in thousands, except per share data)

	7.875% Series A Cumulative Redeemable Preferred Stock	7.625% Series C Cumulative Redeemable Preferred Stock	7.50% Series D Cumulative Redeemable Preferred Stock	Common Stock Par Value	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total stockholders' equity	Noncontrolling Interest	Total
BALANCE, December 31, 2011	177,088	-	-	9,702	15,068,870	3,008,988	(2,504,006)	15,760,642	-	15,760,642
Net income (loss) attributable to Annaly	-	-	-	-	-	-	1,735,900	1,735,900	-	1,735,900
Unrealized gains (losses) on available-for-sale securities	-	-	-	-	-	482,765	-	482,765	-	482,765
Reclassification adjustment for net (gains) losses included in net income (loss)	-	-	-	-	-	(438,511)	-	(438,511)	-	(438,511)
Exercise of stock options	-	-	-	6	8,432	-	-	8,438	-	8,438
Stock compensation expense	-	-	-	-	5,584	-	-	5,584	-	5,584
Conversion of Series B cumulative preferred stock	-	-	-	40	32,232	-	-	32,272	-	32,272
Net proceeds from direct purchase and dividend reinvestment	-	-	-	2	2,792	-	-	2,794	-	2,794
Contingent beneficial conversion feature on 4% Convertible Senior Notes	-	-	-	-	61,725	-	-	61,725	-	61,725
Equity component on 5% Convertible Senior Notes	-	-	-	-	11,717	-	-	11,717	-	11,717
Offering expenses	-	-	-	-	(248)	-	-	(248)	-	(248)
Net proceeds from 7.625% Series C Cumulative Redeemable Preferred Stock offering	-	290,514	-	-	-	-	-	290,514	-	290,514
Net proceeds from 7.50% Series D Cumulative Redeemable Preferred Stock offering	-	-	445,457	-	-	-	-	445,457	-	445,457
Extinguishment of convertible debt	-	-	-	-	(53,558)	-	-	(53,558)	-	(53,558)
Buyback of common stock	-	-	-	(278)	(396,772)	-	-	(397,050)	-	(397,050)
Disposal of subsidiary	-	-	-	-	-	-	5,223	5,223	-	5,223
Preferred Series A dividends, declared $1.97 per share	-	-	-	-	-	-	(14,593)	(14,593)	-	(14,593)
Preferred Series B dividends, declared $0.375 per share	-	-	-	-	-	-	(289)	(289)	-	(289)
Preferred Series C dividends, declared $1.19 per share	-	-	-	-	-	-	(14,297)	(14,297)	-	(14,297)
Preferred Series D dividends, declared $0.56 per share	-	-	-	-	-	-	(10,351)	(10,351)	-	(10,351)
Common dividends declared, $2.05 per share	-	-	-	-	-	-	(1,989,690)	(1,989,690)	-	(1,989,690)
BALANCE, December 31, 2012	177,088	290,514	445,457	9,472	14,740,774	3,053,242	(2,792,103)	15,924,444	-	15,924,444
Net income (loss) attributable to Annaly	-	-	-	-	-	-	3,729,698	3,729,698	-	3,729,698
Unrealized gains (losses) on available-for-sale securities	-	-	-	-	-	(5,378,089)	-	(5,378,089)	-	(5,378,089)
Reclassification adjustment for net (gains) losses included in net income (loss)	-	-	-	-	-	(424,086)	-	(424,086)	-	(424,086)
Exercise of stock options	-	-	-	2	2,202	-	-	2,204	-	2,204
Stock compensation expense	-	-	-	(2)	2,549	-	-	2,547	-	2,547
Net proceeds from direct purchase and dividend reinvestment	-	-	-	2	2,853	-	-	2,855	-	2,855
Contingent beneficial conversion feature on 4% Convertible Senior Notes	-	-	-	-	17,383	-	-	17,383	-	17,383
Disposal of subsidiary	-	-	-	-	-	-	20,923	20,923	-	20,923
Preferred Series A dividends, declared $1.97 per share	-	-	-	-	-	-	(14,593)	(14,593)	-	(14,593)
Preferred Series C dividends, declared $1.91 per share	-	-	-	-	-	-	(22,875)	(22,875)	-	(22,875)
Preferred Series D dividends, declared $1.88 per share	-	-	-	-	-	-	(34,500)	(34,500)	-	(34,500)
Common dividends declared, $1.50 per share	-	-	-	-	-	-	(1,420,856)	(1,420,856)	-	(1,420,856)
BALANCE, December 31, 2013	177,088	290,514	445,457	9,474	14,765,761	(2,748,933)	(534,306)	12,405,055	-	12,405,055
Net income (loss) attributable to Annaly	-	-	-	-	-	-	(842,083)	(842,083)	-	(842,083)
Net income (loss) attributable to noncontrolling interest	-	-	-	-	-	-	-	-	(196)	(196)
Unrealized gains (losses) on available-for-sale securities	-	-	-	-	-	3,048,291	-	3,048,291	-	3,048,291
Reclassification adjustment for net (gains) losses included in net income (loss)	-	-	-	-	-	(94,475)	-	(94,475)	-	(94,475)
Stock compensation expense	-	-	-	-	1,072	-	-	1,072	-	1,072
Net proceeds from direct purchase and dividend reinvestment	-	-	-	2	2,368	-	-	2,370	-	2,370
Contingent beneficial conversion feature on 4% Convertible Senior Notes	-	-	-	-	17,308	-	-	17,308	-	17,308
Contributions from noncontrolling interest	-	-	-	-	-	-	-	-	5,486	5,486
Preferred Series A dividends, declared $1.97 per share	-	-	-	-	-	-	(14,593)	(14,593)	-	(14,593)
Preferred Series C dividends, declared $1.91 per share	-	-	-	-	-	-	(22,875)	(22,875)	-	(22,875)
Preferred Series D dividends, declared $1.88 per share	-	-	-	-	-	-	(34,500)	(34,500)	-	(34,500)
Common dividends declared, $1.20 per share	-	-	-	-	-	-	(1,137,079)	(1,137,079)	-	(1,137,079)
BALANCE, December 31, 2014	**177,088**	**290,514**	**445,457**	**9,476**	**14,786,509**	**204,883**	**(2,585,436)**	**13,328,491**	**5,290**	**13,333,781**

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,		
	2014	2013	2012
Cash flows from operating activities:			
Net income (loss)	$ (842,279)	$ 3,729,698	$ 1,735,900
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Amortization of Investment Securities premiums and discounts, net	664,379	973,968	1,470,801
Amortization of commercial real estate investment premiums and discounts, net	616	(238)	-
Amortization of intangibles	1,390	2,614	4,080
Amortization of deferred financing costs	9,951	8,152	6,965
Amortization of net origination fees and costs, net	(4,917)	-	-
Amortization of contingent beneficial conversion feature and equity component of Convertible Senior Notes	37,341	17,101	18,017
Depreciation expense	3,205	-	-
Net gain on sale of commercial real estate	(2,748)	-	-
Net (gains) losses on sales of Agency mortgage-backed securities and debentures	(94,476)	(424,086)	(432,139)
Net loss on extinguishment of 4% Convertible Senior Notes	-	-	162,340
Stock compensation expense	1,072	2,547	5,584
Impairment of goodwill	-	23,987	-
Loss on previously held equity interest in CreXus	-	18,896	-
Non-cash component of disposal of subsidiary	-	-	(1,177)
Realized loss on disposal of subsidiary	-	21,041	-
Unrealized (gains) losses on interest rate swaps	948,755	(2,002,200)	32,219
Net unrealized (gains) losses on interest-only Agency mortgage-backed securities	86,172	(244,730)	59,937
Net (gains) losses on trading assets	245,495	(1,509)	(20,525)
Proceeds from repurchase agreements of RCap	881,680,774	1,453,216,892	733,739,097
Payments on repurchase agreements of RCap	(875,782,907)	(1,471,279,777)	(727,275,192)
Proceeds from reverse repurchase agreements	107,898,578	450,898,777	402,606,536
Payments on reverse repurchase agreements	(107,898,578)	(449,187,682)	(403,556,765)
Proceeds from securities borrowed	23,888,955	263,155,068	74,361,498
Payments on securities borrowed	(21,306,062)	(263,577,019)	(75,593,708)
Proceeds from securities loaned	41,939,298	484,836,546	185,657,591
Payments on securities loaned	(44,466,966)	(484,117,193)	(184,654,177)
Proceeds from U.S. Treasury securities	3,159,253	142,054,631	64,028,348
Payments on U.S. Treasury securities	(3,920,425)	(141,019,615)	(64,746,420)
Net payments on derivatives	(134,284)	(133,023)	(10,173)
Net change in:			
Due to / from brokers	8,596	503	-
Other assets	(2,657)	3,897	(9,243)
Accrued interest and dividends receivable	(21,376)	141,207	(6,151)
Receivable for investment advisory income	(3,563)	10,891	1,820
Receivable from prime broker	-	-	3,272
Accrued interest payable	34,889	(25,975)	47,931
Accounts payable and other liabilities	987	3,909	3,241
Net cash provided by (used in) operating activities	6,128,468	(12,892,722)	7,639,507
Cash flows from investing activities:			
Payments on purchases of Agency mortgage-backed securities and debentures	(38,626,689)	(39,071,377)	(86,161,777)
Proceeds from sales of Agency mortgage-backed securities and debentures	22,654,547	54,328,560	30,542,875
Principal payments on Agency mortgage-backed securities	8,312,784	21,748,131	35,133,544
Proceeds from Agency debentures called	-	2,147,205	1,801,283
Payments on purchases of corporate debt	(136,953)	(82,502)	(81,090)
Proceeds from corporate debt called	-	24,252	67,649
Principal payments on corporate debt	88,909	4,716	4,247
Acquisition of CreXus	-	(724,889)	-
Origination of commercial real estate investments, net	(246,833)	(984,743)	-
Proceeds from sales of commercial real estate held for sale	26,019	20,192	-
Principal payments on commercial real estate investments	316,082	114,999	-
Purchase of investments in real estate	(190,743)	-	-
Earn out payment	-	-	(13,387)
Proceeds from derivatives	-	7,465	10,379
Proceeds from sales of equity securities	-	-	4,048
Payment on disposal of subsidiary	-	16,209	(800)
Net cash provided by (used in) investing activities	(7,802,877)	37,548,218	(18,693,029)

Statement continued on following page.

Cash flows from financing activities:			
Proceeds from repurchase agreements	195,370,377	381,641,327	352,497,651
Principal payments on repurchase agreements	(191,687,319)	(404,583,138)	(340,273,744)
Proceeds from issuance of securitized debt	260,700	-	-
Payment of deferred financing cost	(6,382)	-	-
Proceeds from exercise of stock options	-	2,204	8,438
Net proceeds from Series C Preferred offering	-	-	290,514
Net proceeds from Series D Preferred offering	-	-	445,457
Net proceeds from issuance of 5% Convertible Senior Notes offering	-	-	727,500
Net payment on extinguishment of 4% Convertible Senior Notes	-	-	(617,476)
Net proceeds from direct purchases and dividend reinvestments	2,370	2,855	2,794
Net (payments) proceeds from follow-on offerings	-	-	(248)
Proceeds from mortgages payable	127,325	-	-
Principal payments on participation sold	(309)	(200)	-
Principal payments on mortgages payable	(47)	-	-
Contributions from noncontrolling interests	5,486	-	-
Net payment on share repurchase	-	(141,149)	(255,901)
Dividends paid	(1,208,984)	(1,640,748)	(2,149,872)
Net cash provided by (used in) financing activities	2,863,217	(24,718,849)	10,675,113
Net (decrease) increase in cash and cash equivalents	1,188,808	(63,353)	(378,409)
Cash and cash equivalents, beginning of period	552,436	615,789	994,198
Cash and cash equivalents, end of period	$ 1,741,244	$ 552,436	$ 615,789
Supplemental disclosure of cash flow information:			
Interest received	$ 3,307,238	$ 4,035,661	$ 4,718,524
Dividends received	$ 25,189	$ 21,624	$ 29,522
Investment advisory income received	$ 27,780	$ 54,534	$ 84,483
Interest paid (excluding interest paid on interest rate swaps)	$ 496,033	$ 656,648	$ 595,152
Net interest paid on interest rate swaps	$ 812,108	$ 885,234	$ 892,656
Taxes paid	$ 8,314	$ 10,447	$ 52,590
Noncash investing activities:			
Receivable for investments sold	$ 1,010,094	$ 1,193,730	$ 290,722
Payable for investments purchased	$ 264,984	$ 764,131	$ 8,256,957
Net change in unrealized gains (losses) on available-for-sale securities, net of reclassification adjustment	$ 2,953,816	$ (5,802,175)	$ 44,254
Noncash financing activities:			
Dividends declared, not yet paid	$ 284,293	$ 284,230	$ 432,154
Conversion of Series B cumulative preferred stock	$ -	$ -	$ 32,272
Contingent beneficial conversion feature on 4% Convertible Senior Notes	$ 17,308	$ 17,383	$ 61,725
Equity component of 5% Convertible Senior Notes	$ -	$ -	$ 11,717

See notes to consolidated financial statements.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 and 2012

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 owns a portfolio of real estate related investments, including mortgage pass-through certificates, collateralized mortgage obligations, agency callable debentures, other securities representing interests in or obligations backed by pools of mortgage loans, commercial real estate assets and corporate loans. The Company's principal business objective is to generate net income for distribution to its stockholders from its investments. The Company is externally managed by Annaly Management Company LLC (the "Manager").

The Company's business operations are primarily comprised of the following:

- Annaly, the parent company, which invests primarily in various types of Agency mortgage-backed securities and related derivatives to hedge these investments.
- Annaly Commercial Real Estate Group, Inc. ("ACREG," formerly known as CreXus Investment Corp. ("CreXus")), a wholly-owned subsidiary that was acquired during the second quarter of 2013 which specializes in acquiring, financing and managing commercial real estate loans and other commercial real estate debt, commercial mortgage-backed securities and other commercial real estate-related assets.
- RCap Securities, Inc. ("RCap"), a wholly-owned subsidiary which operates as a broker-dealer, and is a member of the Financial Industry Regulatory Authority ("FINRA").
- Fixed Income Discount Advisory Company ("FIDAC"), a wholly-owned subsidiary which manages an affiliated real estate investment trust ("REIT") for which it earns fee income.
- Annaly Middle Market Lending LLC ("MML") (formerly known as Charlesfort Capital Management LLC), a wholly-owned subsidiary which engages in corporate middle market lending transactions.
- Shannon Funding LLC ("Shannon"), a wholly-owned subsidiary which acquires residential mortgage loans and provides warehouse financing to residential mortgage originators in the United States.

The Company has elected to be taxed as a 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 accounting principles generally accepted in the United States ("GAAP").

3. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation – The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

The Company has evaluated all of its investments in legal entities in order to determine if they are variable interests in Variable Interest Entities ("VIEs"). 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 variable interest is an investment or other interest that will absorb portions of a VIE's expected losses or receive portions of the entity's expected residual returns. A VIE is required to be consolidated by its primary beneficiary, which is defined as the party that (i) has the power to control the activities that most significantly impact the VIE's economic performance and (ii) has the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

To assess whether the Company has the power to direct the activities of a VIE that most significantly impact the VIE's economic performance, the Company considers all facts and circumstances, including the Company's role in establishing the VIE and the Company's ongoing rights and responsibilities. This assessment includes first, identifying the activities that most significantly impact the VIE's economic performance; and second, identifying which party, if any, has power over those activities. In general, the parties that make the most significant decisions affecting the VIE or have the right to unilaterally remove those decision makers are deemed to have the power to direct the activities of a VIE.

To assess whether the Company has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE, the Company considers all of its economic interests, including debt and equity investments and other arrangements deemed to be variable interests in the VIE. This assessment requires that the Company applies judgment in determining whether these interests, in the aggregate, are considered potentially significant to the VIE. Factors considered in assessing significance include: the design of the VIE, including its capitalization structure; subordination of interests; payment priority; relative share of interests held across various classes within the VIE's capital structure; and the reasons why the interests are held by the Company.

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 regarding the VIE to change.

Cash and Cash Equivalents – Cash and cash equivalents include cash on hand and cash held in money market funds on an overnight basis. RCap is a member of various clearing organizations with which it maintains cash required to conduct its day-to-day clearance activities. Cash and securities deposited with clearing organizations are carried at cost, which approximates fair value. The Company also maintains collateral in the form of cash on margin with counterparties to its interest rate swaps and other derivatives. Cash and securities deposited with clearing organizations and collateral held in the form of cash on margin with counterparties to its interest rate swaps and other derivatives totaled approximately $1.6 billion and $371.8 million at December 31, 2014 and December 31, 2013, respectively.

Fair Value Measurements – The Company reports various financial instruments at fair value. A complete discussion of the methodology utilized by the Company to estimate the fair value of certain financial instruments is included in these Notes to Consolidated Financial Statements.

Revenue Recognition – The revenue recognition policy by asset class is discussed below.

Agency Mortgage-Backed Securities and Agency Debentures – The Company invests primarily in mortgage pass-through certificates, collateralized mortgage obligations and other mortgage-backed securities representing interests in or obligations backed by pools of mortgage loans and certificates 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"). These 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"). The Company also invests in Agency debentures issued by the Federal Home Loan Banks, Freddie Mac and Fannie Mae.

Agency mortgage-backed securities and Agency debentures are referred to herein as "Investment Securities." Although the Company generally intends to hold most of its Investment Securities until maturity, it may, from time to time, sell any of its Investment Securities as part of its overall management of its portfolio. Investment Securities are classified as available-for-sale and are reported at fair values estimated by management that are compared to independent sources for reasonableness, with unrealized gains and losses reported as a component of other comprehensive income (loss). Investment Securities transactions are recorded on trade date, including TBA securities that meet the regular-way securities scope exception from derivative accounting. Realized gains and losses on sales of Investment Securities are determined using the average cost method.

The Company elected the fair value option for Agency interest-only mortgage-backed securities. Interest-only securities and inverse interest-only securities are collectively referred to as "interest-only securities." These Agency interest-only mortgage-backed securities represent the Company's right to receive a specified proportion of the contractual interest flows of specific Agency mortgage-backed securities. Agency interest-only mortgage-backed securities are measured at fair value with changes in fair value recorded as Net unrealized gains (losses) on interest-only Agency mortgage-backed securities in the Company's Consolidated Statements of Comprehensive Income (Loss). The interest-only securities are included in Agency mortgage-backed securities at fair value on the accompanying Consolidated Statements of Financial Condition.

Interest income from coupon payments is accrued based on the outstanding principal amounts of the Investment Securities and their contractual terms. Premiums and discounts associated with the purchase of the

Business
Risk Factors
Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities
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Investment Securities are amortized or accreted into interest income over the projected lives of the securities using the interest method. The Company uses a third-party supplied model to project prepayment speeds. The Company's prepayment speed projections incorporate underlying loan characteristics (e.g., coupon, term, original loan size, original loan to value, etc.) and market data, including interest rate and home price index forecasts. Adjustments are made for actual prepayment activity.

Corporate Debt – The Company's investments in corporate debt are designated as held for investment, and are carried at their principal balance outstanding plus any premiums or discounts less allowances for loan losses. No allowance for loan losses was deemed necessary as of December 31, 2014 and December 31, 2013.

Equity Securities – The Company may invest in equity securities that are classified as available-for-sale or trading. Equity securities classified as available-for-sale are reported at fair value, based on market quotes, with unrealized gains and losses reported as a component of other comprehensive income (loss). Equity securities classified as trading are reported at fair value, based on market quotes, with unrealized gains and losses reported in the Consolidated Statements of Comprehensive Income (Loss) as Net gains (losses) on trading assets. Dividends are recorded in earnings based on the declaration date.

Derivative Instruments – The Company may use a variety of derivative instruments to economically hedge some of its exposure to market risks, including interest rate and prepayment risk. These instruments include, but are not limited to, interest rate swaps, options to enter into interest rate swaps ("swaptions"), TBA securities with the intent to net settle ("TBA derivatives"), options on TBA securities ("MBS options") and U.S. Treasury and Eurodollar futures contracts. The Company may also invest in other types of mortgage derivatives such as interest-only securities and synthetic total return swaps, such as the Markit IOS Synthetic Total Return Swap Index. 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). None of the Company's derivative transactions have been designated as hedging instruments for accounting purposes.

Some derivative agreements contain provisions that allow for netting or setting off by counterparty; however, the Company elected to present related assets and liabilities on a gross basis in the Consolidated Statements of Financial Condition.

Interest rate swap agreements - Interest rate swaps are the primary instrument used to mitigate interest rate risk. In particular, the Company uses interest rate swaps to manage its exposure to changing interest rates on its repurchase agreements by economically hedging cash flows associated with these borrowings. Swap agreements may or may not be cleared through a derivatives clearing organization ("DCO"). Uncleared swaps are fair valued using internal pricing models and compared to the counterparty market values. Centrally cleared swaps are fair valued using internal pricing models and compared to the DCO's market values.

Interest rate swaptions - Interest rate swaptions are purchased/sold to mitigate the potential impact of increases or decreases in interest rates. Interest rate swaptions provide the option to enter into an interest rate swap agreement for a predetermined notional amount, stated term and pay and receive interest rates in the future. They are not centrally cleared. The premium paid/received for interest rate swaptions is reported as an asset/liability in the Consolidated Statement of Financial Condition. The difference between the premium and the fair value of the swaption is reported in Net gains (losses) on trading assets in the Consolidated Statements of Comprehensive Income (Loss). If a swaption expires unexercised, the realized gain (loss) on the swaption would be equal to the premium received/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 interest rate swaptions is estimated using internal pricing models and compared to the counterparty market value.

TBA Dollar Rolls - TBA dollar roll transactions are accounted for as a series of derivative transactions. The fair value of TBA derivatives is based on similar methods used to value Agency mortgage-backed securities with gains and losses recorded in Net gains (losses) on trading assets in the Consolidated Statements of Comprehensive Income (Loss).

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 fair valued using internal pricing models and compared to the counterparty market value at the valuation date with gains and losses recorded in Net gains (losses) on trading assets in the Consolidated Statements of Comprehensive Income (Loss).

Futures Contracts - Futures contracts are derivatives that track the prices of specific assets. Short sales of futures contracts help 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 with gains and losses recorded in Net gains (losses) on trading assets in the Consolidated Statements of Comprehensive Income (Loss).

Other-Than-Temporary Impairment – Management evaluates available-for-sale 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). There was no other-than-temporary impairment recognized for the years ended December 31, 2014, 2013 and 2012.

Loan Loss Reserves – 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 to verify they meet the covenants of the loan documents. If based on the financial review it is deemed probable that the Company will be unable to collect contractual principal and interest amounts (e.g. financial performance and delinquencies), a loan loss provision would be recorded. No allowance for loan losses was deemed necessary as of December 31, 2014 and 2013.

Repurchase Agreements – The Company finances the acquisition of a significant portion of its Agency mortgage-backed securities with repurchase agreements. The Company examines each of the specified criteria in ASC 860, *Transfers and Servicing*, at the inception of each transaction and has determined that each of the financings meet the specified criteria in this guidance. None of the Company's repurchase agreements are accounted for as components of linked transactions. As a result, the Company separately accounts for the financial assets and related repurchase financings in the accompanying consolidated financial statements.

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 in the Consolidated Statements of Cash Flows. The Company reports cash flows on reverse repurchase and repurchase agreements entered into by RCap and Shannon as operating activities in the Consolidated Statements of Cash Flows.

Goodwill and Intangible Assets – The Company's acquisitions of FIDAC, Merganser Capital Management, Inc. ("Merganser") and CreXus were accounted for using the acquisition method. In October 2013, the Company sold the operations of Merganser. 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 of FIDAC, Merganser and CreXus were 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 purchase price over the fair value of the net assets acquired was recognized as goodwill.

The Company tests goodwill for impairment on an annual basis and at interim periods 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 value. The Company recognizes an impairment charge for the amount by which the carrying amount of goodwill exceeds its fair value.

Intangible assets with an estimated useful life are amortized over their expected useful lives.

Convertible Senior Notes **–** The Company records the 4% Convertible Senior Notes and 5% Convertible Senior Notes (collectively, the "Convertible Senior Notes") at their contractual amounts, adjusted by the effects of a beneficial conversion feature and a contingent beneficial conversion feature (collectively, the "Conversion Features"). The Conversion Features' intrinsic value is included in "Additional paid-in capital" on the Company's Consolidated Statements of Financial Condition and reduces the recorded liability amount associated with the Convertible Senior Notes. A Conversion Feature may be recognized as a result of adjustments to the conversion price for dividends declared to common stockholders.

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 on a straight-line basis over the requisite service period for the entire award.

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. Accordingly, the Company will not be subject to federal income tax to the extent of its distributions to stockholders and as long as certain asset, income and stock ownership tests are met. The Company and certain of its direct and indirect subsidiaries, including FIDAC, RCap and certain subsidiaries of ACREG, 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 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 necessary as of December 31, 2014 and 2013.

Use of Estimates – The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Commercial Real Estate Investments

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

Preferred Equity Interests Held for Investment – Preferred equity interests are designated as held for investment and are carried at their outstanding principal balance, net of unamortized origination fees and costs, premiums or discounts, less a reserve for estimated losses if necessary. Origination fees and costs, premiums and discounts are amortized or accreted into interest income over the estimated life of the investment.

Allowance for Losses – The Company evaluates the need for a loss reserve on its commercial real estate loans and preferred equity interests held for investment (collectively referred to as "CRE Debt and Preferred Equity Investments"). A provision for losses related to CRE Debt and Preferred Equity Investments, including those accounted for under ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*, may be established when it is probable the Company will not collect amounts contractually due or all amounts previously estimated to be collectable. 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 CRE Debt and Preferred Equity Investments 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. Because this determination is 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 the nature of the assets underlying the 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. Management reviews loan-to-value metrics upon either the origination or the acquisition of a new investment but generally does not update the loan-to-value metrics in the course of quarterly surveillance. 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 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. Management also reviews economic trends, both macro as well as those directly affecting the property, and the supply and demand of competing projects in the sub-market in which each subject property is located.

In connection with the quarterly surveillance review process, loans are assigned an internal rating of "Performing", "Watch List", "Defaulted-Recovery" or "Impaired". Loans that are deemed to be Performing meet all present contractual obligations and do not qualify for Watch List designation. Watch List loans are defined as Performing loans that are significantly lagging expectations and default is considered imminent. Defaulted–Recovery loans are currently in default; however full recovery of contractual principal and interest is expected. Impaired loans may or may not be in default, impairment is anticipated, and a loan loss provision has been recognized to reflect expected losses.

Investments in Commercial Real Estate – Investments in commercial real estate 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 which are not reimbursed by tenants are expensed as incurred. Major replacements and improvements that extend the useful life of the asset are capitalized and depreciated over their useful life.

Investments in commercial real estate are depreciated using the straight-line method over the estimated useful lives of the assets, summarized as follows:

Category	Term
Building	30-40 years
Site improvements	2-10 years

The Company follows the acquisition method of accounting for acquisitions of operating real estate held for investment, where the purchase price of operating real estate is allocated to tangible assets such as land, building, site improvements and other identified intangibles such as above/below market and in-place leases.

The Company evaluates whether real estate acquired in connection with a foreclosure ("REO") or UCC/deed in lieu of foreclosure (herein collectively referred to as a foreclosure) constitutes a business and whether business combination accounting is applicable. Upon foreclosure of a property, the excess of the carrying value of a loan, if any, over the estimated fair value of the property, less estimated costs to sell, is charged to provision for loan losses.

Investments in commercial real estate, including REO, which 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. In addition, if considered material to the overall consolidated financial statements, the results of operations are reclassified to income (loss) from discontinued operations in the Consolidated Statements of Comprehensive Income (Loss).

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.

Revenue Recognition – Commercial Real Estate Investments - Interest income is accrued based on the outstanding principal amount of the CRE Debt and Preferred Equity Investments and their contractual terms. Premiums and discounts associated with the purchase of CRE Debt and Preferred Equity Investments are amortized or accreted into interest income over the projected lives of the CRE Debt and Preferred Equity Investments using the interest method.

Broker Dealer Activities

In January 2014, RCap ceased its trading activity in U.S. Treasury securities, derivatives and securities borrowed and loaned transactions.

Reverse Repurchase Agreements – RCap enters into reverse repurchase agreements as part of its matched book trading activity. Reverse repurchase agreements are recorded on trade date at the contract amount and are collateralized by mortgage-backed or other securities. Margin calls are made by RCap as necessary based on the daily valuation of the underlying collateral as compared to the contract price. RCap generates income from the spread between what is earned on the reverse repurchase agreements and what is paid on the matched repurchase agreements. RCap'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 RCap will require counterparties to deposit additional collateral, when necessary. All reverse repurchase activities are transacted under master repurchase agreements that give RCap the right, in the event of default, to liquidate collateral held and in some instances, to offset receivables and payables with the same counterparty.

Securities Borrowed and Loaned Transactions – RCap recorded securities borrowed and loaned transactions as collateralized financings. Securities borrowed transactions required RCap to provide the counterparty with collateral in the form of cash, or other securities. RCap received collateral in the form of cash or other securities for securities loaned transactions. RCap monitored the fair value of the securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as necessary. Securities borrowed and securities loaned transactions were recorded at contract value. For these transactions, the rebates accrued by RCap were recorded as interest income or expense.

U.S. Treasury Securities – RCap traded in U.S. Treasury securities for its proprietary portfolio, which consisted of long and short positions on U.S Treasury notes and bonds. U.S. Treasury securities were classified as trading investments and were recorded on the trade date at cost. Changes in fair value were reflected in Net gains (losses) on trading assets in the Company's Consolidated Statement of Comprehensive Income (Loss). Interest income or expense on U.S. Treasury notes and bonds was accrued based on the outstanding principal amount of those investments and their stated terms.

Derivatives - RCap entered primarily into U.S. Treasury, Eurodollar, federal funds, German government and U.S. equity index and currency futures and options contracts. RCap maintained a margin account which was settled daily with FCMs. Changes in the unrealized gains or losses on the futures and options contracts as well as any foreign exchange gains and losses were reflected in Net gains (losses) on trading assets in the Company's Consolidated Statements of Comprehensive Income (Loss). Unrealized gains (losses) were excluded from net income (loss) in arriving at cash flows from operating activities in the Consolidated Statements of Cash Flows.

Recent Accounting Pronouncements

The following table provides a brief description of recent accounting pronouncements that could potentially have a material effect on the Company's consolidated financial statements:

Standard	Description	Date of Adoption	Effect on the financial statements or other significant matters
Standards that are not yet adopted			
ASU 2015-02 *Consolidation (Topic 810) Amendments to the Consolidation Analysis*	This update affects the following areas of the consolidation analysis: limited partnerships and similar entities, evaluation of fees paid to a decision maker or service provider as a variable interest and in determination of the primary beneficiary, effect of related parties on the primary beneficiary determination and for certain investment funds.	January 1, 2016 (early adoption permitted)	Not expected to have a significant impact on the consolidated financial statements
ASU 2015-01 *Income Statement - Extraordinary and Unusual Items (Subtopic 225-20)*	This update eliminates from GAAP the concept of extraordinary items.	January 1, 2016 (early adoption permitted)	Not expected to have an impact on the consolidated financial statements.
ASU 2014-16 Derivatives and Hedging (Topic 815) Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share is More Akin to Debt or Equity	This ASU provides additional guidance for evaluating whether conversion rights, redemption rights, voting rights, liquidation rights and dividend payment preferences and other features embedded in a share, including preferred stock, contain embedded derivatives requiring bifurcation. The update requires that an entity determine the nature of the host contract by considering all stated and implied terms and features in a hybrid instrument.	January 1, 2016 (early adoption permitted)	Not expected to have an impact on the consolidated financial statements.
ASU 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-04) Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*	This ASU requires management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date the financial statements are issued.	January 1, 2017 (early adoption permitted)	Not expected to have an impact on the consolidated financial statements.
ASU 2014-13, *Consolidation (Topic 810) Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity .*	This Update provides a practical expedient to measure the fair value of the financial assets and financial liabilities of a consolidated collateralized financing entity, which the reporting entity has elected to or is required to measure on a fair value basis.	January 1, 2015 (early adoption permitted)	Not expected to have an impact on the consolidated financial statements.
ASU 2014-11, *Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosure .*	This update makes limited amendments to the guidance in ASC 860 on accounting for certain repurchase agreements.	January 1, 2015, except for the disclosure requirements for transactions accounted for as secured borrowings, which are required to be presented for interim periods beginning after March 15, 2015	Will impact disclosures only and will not have a significant impact on the consolidated financial statements.
ASU 2014-09, *Revenue from Contracts with Customers*	This guidance applies to contracts with customers to transfer goods or services and contracts to transfer nonfinancial assets unless those contracts are within the scope of other standards (for example, lease transactions).	January 1, 2017	Not expected to have a significant impact on the consolidated financial statements.
ASU 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360) Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*	This ASU raises the threshold for a disposal to be treated as discontinued operations.	January 1, 2015 (early adoption permitted)	Not expected to have a significant impact on the consolidated financial statements.
ASU 2014-04 *Receivables–Troubled Debt Restructurings by Creditors, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*	This Update clarifies that an in substance repossession or foreclosure has occurred, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, when the creditor obtains legal title to the property upon completion of a foreclosure or the borrower conveys all interest in the property to the creditor through a deed in lieu of foreclosure or similar arrangement	January 1, 2015	Not expected to have a significant impact on the consolidated financial statements.
Standards that were adopted			
ASU 2014-17 *Business Combinations (Topic 805): Pushdown Accounting*	This amendment provides an acquired entity with the option to apply push down accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity.	November 18, 2014	Did not have a significant impact on the consolidated financial statements.
ASU 2013-02, *Comprehensive Income: Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*	This update requires the provision of information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, it requires presentation of significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period	January 1, 2014	Did not have a significant impact on the consolidated financial statements.
ASU 2011-11, *Balance Sheet: Disclosures about Offsetting Assets and Liabilities*	Under this update, the Company is required to disclose both gross and net information about both instruments and transactions eligible for offset in the Company's Consolidated Statements of Financial Condition and transactions subject to an agreement similar to a master netting arrangement. The scope includes derivatives, sale and repurchase agreements and reverse sale and repurchase agreements and securities borrowing and securities lending arrangements.	January 1, 2014	Did not have a significant impact on the consolidated financial statements.

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Risk Factors
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4. AGENCY MORTGAGE-BACKED SECURITIES

The following tables present the Company's available-for-sale Agency mortgage-backed securities portfolio as of December 31, 2014 and 2013 which were carried at their fair value:

December 31, 2014	Freddie Mac	Fannie Mae	Ginnie Mae	Total
	(dollars in thousands)			
Principal outstanding	$ 27,906,221	$ 47,979,778	$ 97,000	$ 75,982,999
Unamortized premium	1,951,798	3,396,368	20,560	5,368,726
Unamortized discount	(8,985)	(8,857)	(358)	(18,200)
Amortized cost	29,849,034	51,367,289	117,202	81,333,525
Gross unrealized gains	313,761	660,230	8,010	982,001
Gross unrealized losses	(322,094)	(424,800)	(3,376)	(750,270)
Estimated fair value	$ 29,840,701	$ 51,602,719	$ 121,836	$ 81,565,256

	Fixed Rate	Adjustable Rate	Total
	(dollars in thousands)		
Amortized cost	$ 78,250,313	$ 3,083,212	$ 81,333,525
Gross unrealized gains	847,615	134,386	982,001
Gross unrealized losses	(732,533)	(17,737)	(750,270)
Estimated fair value	$ 78,365,395	$ 3,199,861	$ 81,565,256

December 31, 2013	Freddie Mac	Fannie Mae	Ginnie Mae	Total
	(dollars in thousands)			
Principal outstanding	$ 24,458,925	$ 43,564,657	$ 120,739	$ 68,144,321
Unamortized premium	1,627,966	2,970,813	27,085	4,625,864
Unamortized discount	(9,533)	(11,568)	(383)	(21,484)
Amortized cost	26,077,358	46,523,902	147,441	72,748,701
Gross unrealized gains	227,423	456,057	9,845	693,325
Gross unrealized losses	(1,267,106)	(1,781,683)	(4,288)	(3,053,077)
Estimated fair value	$ 25,037,675	$ 45,198,276	$ 152,998	$ 70,388,949

	Fixed Rate	Adjustable Rate	Total
	(dollars in thousands)		
Amortized cost	$ 68,784,424	$ 3,964,277	$ 72,748,701
Gross unrealized gains	538,556	154,769	693,325
Gross unrealized losses	(3,040,153)	(12,924)	(3,053,077)
Estimated fair value	$ 66,282,827	$ 4,106,122	$ 70,388,949

Actual maturities of Agency mortgage-backed securities are generally shorter than stated contractual maturities because actual maturities of Agency mortgage-backed securities are affected by periodic payments and prepayments of principal on the underlying mortgages. The following table summarizes the Company's Agency mortgage-backed securities as of December 31, 2014 and 2013, according to their estimated weighted average life classifications:

Weighted Average Life	December 31, 2014 Estimated Fair Value	December 31, 2014 Amortized Cost	December 31, 2013 Estimated Fair Value	December 31, 2013 Amortized Cost
	(dollars in thousands)			
Less than one year	$ 43,248	$ 42,831	$ 65,584	$ 64,561
Greater than one year through five years	42,222,114	41,908,586	50,046,013	51,710,059
Greater than five years through ten years	39,018,833	39,098,352	14,915,716	15,292,973
Greater than ten years	281,061	283,756	5,361,636	5,681,108
Total	$ 81,565,256	$ 81,333,525	$ 70,388,949	$ 72,748,701

The weighted average lives of the Agency mortgage-backed securities at December 31, 2014 and 2013 in the table above are based upon projected principal prepayment rates. The actual weighted average lives of the Agency mortgage-backed 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 by length of time that such securities have been in a continuous unrealized loss position at December 31, 2014 and 2013.

	December 31, 2014			December 31, 2013		
	Estimated Fair Value	Gross Unrealized Losses	Number of Securities	Estimated Fair Value	Gross Unrealized Losses	Number of Securities
	(dollars in thousands)					
Less than 12 Months	$ 4,613,599	$ (36,959)	205	$ 47,677,197	$ (2,569,474)	583
12 Months or More	35,175,194	(713,311)	302	6,102,283	(483,603)	55
Total	$ 39,788,793	$ (750,270)	507	$ 53,779,480	$ (3,053,077)	638

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. Also, the Company is guaranteed payment of the principal amount of the securities by the respective issuing government agency.

During the year ended December 31, 2014, the Company disposed of $20.6 billion of Agency mortgage-backed securities, resulting in a realized gain of $179.7 million. During the year ended December 31, 2013, the Company disposed of $54.5 billion of Agency mortgage-backed securities, resulting in a realized gain of $440.2 million. During the year ended December 31, 2012, the Company sold $30.4 billion of Agency mortgage-backed securities, resulting in a realized gain of $438.5 million. Average cost is used as the basis on which the realized gain or loss on sale is determined.

Agency interest-only mortgage-backed securities represent the right to receive a specified portion of the contractual interest flows of the underlying outstanding principal balance of specific Agency mortgage-backed securities. Agency interest-only mortgage-backed securities in the Company's portfolio as of December 31, 2014 and 2013 had net unrealized gains (losses) of ($8.0) million and $78.1 million and an amortized cost of $1.2 billion and $1.0 billion, respectively.

5. ACQUISITION OF CREXUS

On April 17, 2013, the Company, through its wholly-owned subsidiary CXS Acquisition Corporation obtained control of CreXus pursuant to the merger agreement dated January 30, 2013. CreXus owned a portfolio of commercial real estate assets which are now owned by the Company. Following the acquisition, CXS Acquisition Corporation was renamed Annaly Commercial Real Estate Group, Inc.

The business combination was accounted for under the acquisition method of accounting in accordance with ASC 805, *Business Combinations,* ("ASC 805"). Accordingly, goodwill was measured as the excess of the aggregate of the acquisition-date fair value of the consideration transferred and the acquisition-date fair value of the Company's previously held equity interest in CreXus over the fair value, at acquisition date, of the identifiable assets acquired net of assumed liabilities. The following table summarizes the aggregate consideration and preliminary fair value of the assets acquired and liabilities assumed recognized at the acquisition date:

		April 17, 2013
		(dollars in thousands)
Cash consideration transferred	$	876,267
Fair value of equity interest in CreXus held before the business combination		106,521
	$	982,788
Recognized amounts of identifiable assets acquired and liabilities assumed		
Cash and cash equivalents	$	151,843
Commercial real estate investments		796,950
Accrued interest receivable		3,485
Other assets		5,617
Mortgages payable		(19,376)
Participation sold		(14,352)
Accounts payable and accrued expenses		(12,729)
Total identifiable net assets		911,438
Goodwill		71,350
	$	982,788

The Company recorded $71.4 million of goodwill during the second quarter of 2013 associated with the acquisition of CreXus in the Consolidated Statements of Financial Condition. The Company recognized additional goodwill of $0.4 million during the second half of 2013. In management's opinion, the goodwill represents the synergies that resulted from integrating CreXus' commercial real estate platform into the Company, which the Company believes is complementary to its existing business and return profile.

The acquisition-date fair value of the previously held equity interest in CreXus excluded the estimated fair value of the control premium that resulted from the merger transaction. The Company recognized a loss of $18.9 million during the second quarter of 2013 as a result of remeasuring the fair value of its equity interest in CreXus held before the business combination.

Under ASC 805, merger-related transaction costs (such as advisory, legal, valuation and other professional fees) are not included as components of consideration transferred but are expensed in the periods in which the costs are incurred. Transaction costs of $7.3 million were incurred during 2013 and were included in other general and administrative expenses in the Consolidated Statements of Comprehensive Income (Loss).

6. COMMERCIAL REAL ESTATE INVESTMENTS

At December 31, 2014 and 2013, commercial real estate investments were composed of the following:

CRE Debt and Preferred Equity Investments

	December 31, 2014			December 31, 2013		
	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	$ 384,304	$ 383,895	25.2%	$ 669,512	$ 667,299	42.2%
Senior securitized mortgages (3)	399,541	398,634	26.3%	-	-	0.0%
Subordinate notes	-	-	0.0%	41,059	41,408	2.6%
Mezzanine loans	522,474	522,731	34.4%	626,883	628,102	39.5%
Preferred equity	214,653	212,905	14.1%	249,769	247,160	15.7%
Total	$ 1,520,972	$ 1,518,165	100.0%	$ 1,587,223	$1,583,969	100.0%

(1) Carrying value includes unamortized origination fees of $3.0 million and $4.9 million as of December 31, 2014 and December 31, 2013, respectively.

(2) Based on outstanding principal.

(3) Assets of consolidated VIE.

	December 31, 2014					
	Senior Mortgages	Senior Securitized Mortgages (1)	Subordinate Notes	Mezzanine Loans	Preferred Equity	Total
	(dollars in thousands)					
Beginning balance	$ 667,299	$ -	$ 41,408	$ 628,102	$ 247,160	$ 1,583,969
Originations & advances (principal)	127,112	-	-	122,742	-	249,854
Principal payments	(12,756)	-	(41,059)	(227,151)	(35,116)	(316,082)
Sales (principal)	-	-	-	-	-	-
Amortization & accretion of (premium) discounts	(138)	-	(349)	(1,093)	108	(1,472)
Net (increase) decrease in origination fees	(2,427)	(116)	-	(478)	-	(3,021)
Amortization of net origination fees	2,783	772	-	609	753	4,917
Transfers	(397,978)	397,978	-	-	-	-
Allowance for loan losses	-	-	-	-	-	-
Net carrying value	$ 383,895	$ 398,634	$ -	$ 522,731	$ 212,905	$ 1,518,165

	December 31, 2013					
	Senior Mortgages	Senior Securitized Mortgages (1)	Subordinate Notes	Mezzanine Loans	Preferred Equity	Total
	(dollars in thousands)					
Beginning balance	$ 101,473	$ -	$ 41,851	$ 547,068	$ 39,060	$ 729,452
Originations & advances (principal)	590,039	-	-	184,704	210,000	984,743
Principal payments	(24,333)	-	(235)	(90,431)	-	(114,999)
Sales (principal)	(13,750)	-	-	-	-	(13,750)
Amortization & accretion of (premium) discounts	(109)	-	(208)	(484)	85	(716)
Net (increase) decrease in origination fees	151	-	-	(285)	(2,118)	(2,252)
Amortization of net origination fees	1,328	-	-	30	133	1,491
Transfers	12,500	-	-	(12,500)	-	-
Allowance for loan losses	-	-	-	-	-	-
Net carrying value	$ 667,299	$ -	$ 41,408	$ 628,102	$ 247,160	$ 1,583,969

(1) Assets of consolidated VIE.

Internal CRE Debt and Preferred Equity Investment Ratings

	December 31, 2014					
			Internal Ratings			
Investment Type	Outstanding Principal	Percentage of CRE Debt and Preferred Equity Portfolio	Performing	Watch List	Defaulted-Recovery	Workout
	(dollars in thousands)					
Senior mortgages	$ 384,304	25.2%	$ 371,331	$ -	$ 12,973 (2)	$ -
Senior securitized mortgages (1)	399,541	26.3%	390,291	9,250	-	-
Subordinate notes	-	0.0%	-	-	-	-
Mezzanine loans	522,474	34.4%	522,474	-	-	-
Preferred equity	214,653	14.1%	214,653	-	-	-
	$ 1,520,972	100.0%	$ 1,498,749	$ 9,250	$ 12,973	$ -

	December 31, 2013					
			Internal Ratings			
Investment Type	Outstanding Principal	Percentage of CRE Debt and Preferred Equity Portfolio	Performing	Watch List	Defaulted-Recovery	Workout
	(dollars in thousands)					
Senior mortgages	$ 669,512	42.2%	$ 644,039	$ -	$ 25,473 (3)	$ -
Subordinate notes	41,059	2.6%	41,059	-	-	-
Mezzanine loans	626,883	39.5%	620,883	-	6,000	-
Preferred equity	249,769	15.7%	249,769	-	-	-
	$ 1,587,223	100.0%	$ 1,555,750	$ -	$ 31,473	$ -

(1) Assets of consolidated VIE.

(2) Relates to one loan on nonaccrual status.

(3) Includes one loan on non-accrual status with a carrying value of $12.9 million.

Real Estate Acquisitions

In November 2014, a joint venture, in which the Company has a 90% interest, acquired eleven retail properties located in New York, Ohio and Georgia. The purchase price was funded with cash and a new $104.0 million, ten-year, 4.03% fixed-rate interest-only mortgage loan.

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The following table summarizes acquisitions of real estate held for investment during the year ended December 31, 2014:

Date of Acquisition	Type	Location	Purchase Price	Remaining Lease Term (Years) (1)
		(dollars in thousands)		
April 2014	Single-tenant retail	Tennessee	$ 19,000	8
June 2014	Multi-tenant retail	Virginia	$ 17,743	7
November 2014	Multi-tenant retail	New York, Ohio, Georgia	$ 154,000	4.6

(1) Does not include extension options.

The aforementioned acquisitions were accounted for using the acquisition method of accounting. The Company incurred approximately $2.3 million of transaction costs in connection with the acquisitions, which were expensed during the year ended December 31, 2014 and are reflected in Other general and administrative expenses in the accompanying Consolidated Statements of Comprehensive Income (Loss).

The following table presents the aggregate allocation of the purchase price:

	Tennessee	Virginia	Joint Venture	Total
	(dollars in thousands)			
Purchase Price Allocation:				
Land	$ 3,503	$ 6,394	$ 21,581	$ 31,478
Buildings	11,960	10,862	97,133	119,955
Site improvements	1,349	1,184	12,952	15,485
Tenant Improvements	-	-	9,601	9,601
Real estate held for investment	16,812	18,440	141,267	176,519
Intangible assets (liabilities):				
Leasehold intangible assets	4,288	3,218	22,555	30,061
Above market lease	-	-	5,463	5,463
Below market lease value	(2,100)	(3,915)	(15,285)	(21,300)
Total purchase price	$ 19,000	$ 17,743	$ 154,000	$ 190,743

The weighted average amortization period for intangible assets and liabilities is 4.25 years. Above market leases and leasehold intangible assets are included in Other assets and below market leases are included in Accounts payable and other liabilities in the Consolidated Statements of Financial Condition. The fair value of the 10% non-controlling interest in the joint venture at the acquisition date was $15.4 million. The fair value of the acquisition and the related non-controlling interest was determined based on the purchase price.

Total Commercial Real Estate Investment

	December 31, 2014	December 31, 2013
	(dollars in thousands)	
Real estate held for investment, at amortized cost		
Land	$ 38,117	$ 6,639
Buildings and improvements	176,139	31,100
Subtotal	214,256	37,739
Less: accumulated depreciation	(4,224)	(877)
Total real estate held for investment at amortized cost, net	210,032	36,862
Real estate held for sale at fair value	-	23,270
Total investment in commercial real estate, net	210,032	60,132
Net carrying value of CRE Debt and Preferred Equity Investments	1,518,165	1,583,969
Total commercial real estate investments	$ 1,728,197	$ 1,644,101

Depreciation expense was $3.2 million and $0.9 million for the year ended December 31, 2014 and 2013, respectively and is included in General and administrative expenses in the Consolidated Statements of Comprehensive Income (Loss). The table below presents the minimum future rentals on noncancelable leases of the Company's commercial real estate investments as of December 31, 2014.

Rental Income

The minimum rental amounts due under the leases are generally either subject to scheduled fixed increases or adjustments. The leases generally also require that the tenants reimburse us for certain operating costs. Approximate future minimum rents to be received over the next five years and thereafter for non-cancelable operating leases in effect at December 31, 2014 for the consolidated properties, including consolidated joint venture properties are as follows (in thousands):

	December 31, 2014 (dollars in thousands)	
2015	$	20,299
2016		18,285
2017		15,661
2018		13,388
2019		11,050
Later years		51,087
	$	129,770

Mortgage loans payable as of December 31, 2014 and 2013, were as follows:

December 31, 2014								
Property		Mortgage Carrying Value		Mortgage Principal	Interest Rate	Fixed/Floating Rate	Maturity Date	Priority
					(dollars in thousands)			
Joint Venture	$	103,950	$	103,950	4.03%	Fixed	9/6/2019	First liens
Tennessee		12,350		12,350	4.01%	Fixed	6/6/2019	First liens
Virginia		11,025		11,025	3.58%	Fixed	12/6/2024	First liens
Arizona		16,709		16,600	3.50%	Fixed	1/1/2017	First liens
Nevada		2,519		2,505	3.45%	Floating (1)	3/29/2017	First liens
	$	146,553	$	146,430				

(1) Rate is fixed via an interest rate swap (pay fixed 3.45%, receive floating rate of L+200).

December 31, 2013								
Property		Mortgage Carrying Value		Mortgage Principal	Interest Rate	Fixed/Floating Rate	Maturity Date	Priority
					(dollars in thousands)			
Arizona	$	16,762	$	16,600	3.50%	Fixed	1/1/2017	First liens
Nevada		2,570		2,550	3.45%	Floating (1)	3/29/2017	First liens
	$	19,332	$	19,150				

(1) Rate is fixed via an interest rate swap (pay fixed 3.45%, receive floating rate of L+200).

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The following table details future mortgage loan principal payments as of December 31, 2014:

Years Ending December 31,	Mortgage Loan Principal Payments
	(dollars in thousands)
2015	$ 334
2016	399
2017	18,372
2018	-
2019	23,375
Later years	103,950
	$ 146,430

VIE

Securitization

In January 2014, the Company closed NLY Commercial Mortgage Trust 2014-FL1 (the "Trust"), a $399.5 million securitization financing transaction which provides permanent, non-recourse financing collateralized by floating-rate first mortgage debt investments originated or co-originated by the Company and is not subject to margin calls. A total of $260.7 million of investment grade bonds were issued by the Trust, representing an advance rate of 65.3% at a weighted average coupon of LIBOR plus 1.74% at closing. The Company is using the proceeds to originate commercial real estate investments. The Company retained bonds rated below investment grade and the only interest-only bond issued by the Trust, which are referred to as the subordinate bonds.

The Company incurred approximately $4.3 million of costs in connection with the securitization that have been capitalized and are being amortized to interest expense. Deferred financing costs are included in Other assets in the accompanying Consolidated Statements of Financial Condition.

The Trust is structured as a pass-through entity that receives principal and interest on the underlying collateral and distributes those payments to the certificate holders. The Trust is a VIE and the Company is the primary beneficiary as a result of its ability to replace the special servicer without cause through its ownership interest in the subordinate bonds. The Company's exposure to the obligations of the VIE is generally limited to the Company's investment in the Trust. Assets of the Trust may only be used to settle obligations of the Trust. Creditors of the Trust 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 Trust. No gain or loss was recognized upon initial consolidation of the Trust.

As of December 31, 2014 the carrying value of the Trust's assets was $398.6 million, net of $0.9 million of unamortized origination fees, which are included in Commercial real estate debt and preferred equity in the accompanying Consolidated Statements of Financial Condition. As of December 31, 2014, the carrying value of the Trust's liabilities was $260.7 million, classified as Securitized debt in the accompanying Consolidated Statements of Financial Condition.

7. FAIR VALUE MEASUREMENTS

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

GAAP requires classification of financial instruments into a three-level hierarchy based on the priority of the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Financial assets and liabilities recorded at fair value on the Consolidated Statements of Financial Condition or disclosed in the related notes are categorized based on the inputs to the valuation techniques as follows:

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

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

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

The Company designates its financial instruments as available for sale or trading depending upon the type of instrument and the Company's intent and ability to hold such instrument to maturity. Instruments 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.

U.S. Treasury securities and investment in affiliates are valued using quoted prices for identical instruments in active markets. Agency mortgage-backed securities, Agency debentures, 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. Management reviews the fair values generated by the internal models to determine whether prices are reflective of the current market. Management 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.

The Agency mortgage-backed securities, interest rate swap and swaption markets 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 Agency mortgage-backed securities, interest rate swaps and swaptions 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 Agency mortgage-backed securities, interest rate swaps, swaptions, TBA derivatives and MBS options as Level 2 inputs in the fair value hierarchy.

The following table presents the estimated fair values of financial instruments measured at fair value on a recurring basis.

December 31, 2014	Level 1	Level 2	Level 3	Total
	(dollars in thousands)			
Assets:				
U.S. Treasury securities	$ -	$ -	$ -	$ -
Agency mortgage-backed securities	-	81,565,256	-	81,565,256
Agency debentures	-	1,368,350	-	1,368,350
Investment in affiliates	143,045	-	-	143,045
Interest rate swaps	-	75,225	-	75,225
Other derivatives	117	5,382	-	5,499
Total Assets	$ 143,162	$ 83,014,213	$ -	$ 83,157,375
Liabilities:				
U.S. Treasury securities sold, not yet purchased	$ -	$ -	$ -	$ -
Interest rate swaps	-	1,608,286	-	1,608,286
Other derivatives	3,769	4,258	-	8,027
Total Liabilities	$ 3,769	$ 1,612,544	$ -	$ 1,616,313

At December 31, 2013	Level 1	Level 2	Level 3	Total
	(dollars in thousands)			
Assets:				
U.S. Treasury securities	$ 1,117,915	$ -	$ -	$ 1,117,915
Agency mortgage-backed securities	-	70,388,949	-	70,388,949
Agency debentures	-	2,969,885	-	2,969,885
Investment in affiliates	139,447	-	-	139,447
Interest rate swaps	-	559,044	-	559,044
Other derivatives	3,487	143,238	-	146,725
Total Assets	$ 1,260,849	$ 74,061,116	$ -	$ 75,321,965
Liabilities:				
U.S. Treasury securities sold, not yet purchased	$ 1,918,394	$ -	$ -	$ 1,918,394
Interest rate swaps	-	1,141,828	-	1,141,828
Other derivatives	439	55,079	-	55,518
Total Liabilities	$ 1,918,833	$ 1,196,907	$ -	$ 3,115,740

GAAP requires disclosure of fair value information about financial instruments, whether or not recognized in the financial statements, for which it is practical to estimate the value. In cases where quoted market prices are not available, fair values are based upon discounted cash flows using market yields or other valuation methodologies. Considerable judgment is necessary to interpret market data and develop estimated fair values. Accordingly, fair values are not necessarily indicative of the amount the Company would realize on disposition of the financial instruments. The use of different market assumptions or estimation methodologies could have a material effect on the estimated fair value amounts.

The carrying value of short term instruments, including cash and cash equivalents, reverse repurchase agreements and repurchase agreements whose term is less than twelve months, and securities borrowed and securities loaned, generally approximates fair value due to the short term nature of the instruments.

The estimated fair value of commercial real estate debt and preferred equity investments takes into consideration changes in credit spreads and interest rates from the date of origination or purchase to the reporting date. The fair value also reflects consideration of asset-specific maturity dates and other items that could have an impact on the fair value as of the reporting date.

Estimates of fair value of corporate debt require the use of judgments and inputs including, but not limited to, the enterprise value of the borrower (i.e., an estimate of the total fair value of the borrower's debt and equity), the nature and realizable value of any collateral, the borrower's ability to make payments when due and its earnings history. Management also considers factors that affect the macro and local economic markets in which the borrower operates.

The fair value of repurchase agreements with remaining maturities greater than one year or with embedded optionality are valued as structured notes, with term to maturity, LIBOR rates and the Treasury curve being primary determinants of estimated fair value.

The fair value of mortgages payable is calculated using the estimated yield of a new par loan to value the remaining terms in place. A par loan is created using the identical terms of the existing loan; however, the coupon is derived by using the original spread against the interpolated Treasury. The fair value of mortgages payable also reflects consideration of the value of the underlying collateral and changes in credit risk from the time the debt was originated.

The carrying value of participation sold is based on the loan's amortized cost. The fair value of participation sold is based on the fair value of the underlying related commercial loan.

The fair value of convertible senior notes is determined using end of day quoted prices in active markets.

The fair value of securitized debt of consolidated VIE is determined using the average of external vendor pricing services.

The following table summarizes the estimated fair value for financial assets and liabilities as of December 31, 2014 and 2013.

		December 31, 2014				December 31, 2013			
	Level in Fair Value Hierarchy		Carrying Value		Fair Value		Carrying Value		Fair Value
		(dollars in thousands)							
Financial assets:									
Cash and cash equivalents	1	$	1,741,244	$	1,741,244	$	552,436	$	552,436
Reverse repurchase agreements	1		100,000		100,000		100,000		100,000
Securities borrowed	1		-		-		2,582,893		2,582,893
U.S. Treasury securities	1		-		-		1,117,915		1,117,915
Agency mortgage-backed securities	2		81,565,256		81,565,256		70,388,949		70,388,949
Agency debentures	2		1,368,350		1,368,350		2,969,885		2,969,885
Investment in affiliates	1		143,045		143,045		139,447		139,447
Commercial real estate debt and preferred equity	3		1,518,165		1,528,444		1,583,969		1,581,836
Corporate debt	2		166,464		166,056		117,687		118,362
Interest rate swaps	2		75,225		75,225		559,044		559,044
Other derivatives	1,2		5,499		5,499		146,725		146,725
Financial liabilities:									
U.S. Treasury securities sold, not yet purchased	1	$	-	$	-	$	1,918,394	$	1,918,394
Repurchase agreements	1,2		71,361,926		71,587,222		61,781,001		62,134,133
Securities loaned	1		-		-		2,527,668		2,527,668
Convertible Senior Notes	1		845,295		863,470		825,262		870,199
Securitized debt of consolidated VIE	2		260,700		262,061		-		-
Mortgages payable	2		146,553		146,611		19,332		19,240
Participation sold	3		13,693		13,655		14,065		14,050
Interest rate swaps	2		1,608,286		1,608,286		1,141,828		1,141,828
Other derivatives	1,2		8,027		8,027		55,518		55,518

8. SECURED FINANCING

The Company had outstanding $71.4 billion and $61.8 billion of repurchase agreements with weighted average borrowing rates of 1.62% and 2.33%, after giving effect to the Company's interest rate swaps, and weighted average remaining maturities of 141 days and 204 days as of December 31, 2014 and 2013, respectively.

At December 31, 2014 and 2013, the repurchase agreements had the following remaining maturities and weighted average rates:

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	December 31, 2014		December 31, 2013	
	Repurchase Agreements	Weighted Average Rate	Repurchase Agreements	Weighted Average Rate
1 day	$ -	0.00%	$ -	0.00%
2 to 29 days	28,354,167	0.35%	21,171,574	0.36%
30 to 59 days	17,336,469	0.43%	13,373,921	0.43%
60 to 89 days	4,040,677	0.38%	3,592,266	0.44%
90 to 119 days	2,945,495	0.50%	4,010,334	0.52%
Over 120 days(1)	18,685,118	1.24%	19,632,906	1.29%
Total	$ 71,361,926	0.61%	$ 61,781,001	0.68%

(1) Approximately 15% and 16% of the total repurchase agreements had a remaining maturity over 1 year as of December 31, 2014 and 2013, respectively.

Repurchase agreements and reverse 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 permit netting. 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 as of December 31, 2014 and 2013.

	December 31, 2014		December 31, 2013	
	Reverse Repurchase Agreements	Repurchase Agreements	Reverse Repurchase Agreements	Repurchase Agreements
	(dollars in thousands)			
Gross Amounts	$ 700,000	$ 71,961,926	$ 2,524,980	$ 64,205,981
Amounts Offset	(600,000)	(600,000)	(2,424,980)	(2,424,980)
Netted Amounts	$ 100,000	$ 71,361,926	$ 100,000	$ 61,781,001

9. DERIVATIVE INSTRUMENTS

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 U.S. Treasury futures contracts. The Company also enters into TBA derivatives and MBS options 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, notional amount and remaining term of the derivative contract. In the event of a default by the counterparty, the Company could have difficulty obtaining its Investment Securities pledged as collateral as well as receiving payments in accordance with the terms of the derivative contracts.

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

Derivatives Instruments	Balance Sheet Location	December 31, 2014	December 31, 2013
Assets:		(dollars in thousands)	
Interest rate swaps	Interest rate swaps, at fair value	$ 75,225	$ 559,044
Interest rate swaptions	Other derivative contracts, at fair value	5,382	110,361
TBA derivatives	Other derivative contracts, at fair value	-	20,693
MBS options	Other derivative contracts, at fair value	-	12,184
Futures contracts	Other derivative contracts, at fair value	117	3,487
		$ 80,724	$ 705,769
Liabilities:			
Interest rate swaps	Interest rate swaps, at fair value	1,608,286	1,141,828
Interest rate swaptions	Other derivative contracts, at fair value	-	24,662
TBA derivatives	Other derivative contracts, at fair value	4,258	13,779
MBS options	Other derivative contracts, at fair value	-	16,638
Futures contracts	Other derivative contracts, at fair value	3,769	439
		$ 1,616,313	$ 1,197,346

The following table summarizes certain characteristics of the Company's interest rate swaps at December 31, 2014 and 2013:

	December 31, 2014			
Maturity	Current Notional [(1)]	Weighted Average Pay Rate [(2) (3)]	Weighted Average Receive Rate [(2)]	Weighted Average Years to Maturity [(2)]
	(dollars in thousands)			
0 - 3 years	$ 2,502,505	1.63%	0.17%	2.64
3 - 6 years	11,138,000	2.06%	0.22%	5.18
6 - 10 years	13,069,200	2.67%	0.23%	8.57
Greater than 10 years	4,751,800	3.58%	0.20%	19.53
Total / Weighted Average	$ 31,461,505	2.49%	0.22%	8.38

(1) Notional amount includes $500.0 million in forward starting pay fixed swaps.

(2) Excludes forward starting swaps.

(3) Weighted average fixed rate on forward starting pay fixed swaps was 3.25%.

	December 31, 2013			
Maturity	Current Notional	Weighted Average Pay Rate	Weighted Average Receive Rate	Weighted Average Years to Maturity
	(dollars in thousands)			
0 - 3 years	$ 24,286,000	1.83%	0.18%	1.98
3 - 6 years	8,865,410	2.02%	0.19%	4.19
6 - 10 years	15,785,500	2.37%	0.23%	7.66
Greater than 10 years	3,490,000	3.62%	0.20%	19.93
Total / Weighted Average	$ 52,426,910	2.14%	0.20%	5.26

The following table summarizes certain characteristics of the Company's interest rate swaptions at December 31, 2014 and 2013:

December 31, 2014	Current Underlying Notional	Weighted Average Underlying Pay Rate	Weighted Average Underlying Receive Rate	Weighted Average Underlying Years to Maturity	Weighted Average Months to Expiration
			(dollars in thousands)		
Long	$ 1,750,000	2.88%	3M LIBOR	9.17	3.59
Short	$ -	-	-	-	-

December 31, 2013	Current Underlying Notional	Weighted Average Underlying Pay Rate	Weighted Average Underlying Receive Rate	Weighted Average Underlying Years to Maturity	Weighted Average Months to Expiration
			(dollars in thousands)		
Long	$ 5,150,000	3.07%	3M LIBOR	10.10	4.26
Short	$ 1,000,000	3M LIBOR	2.83%	5.96	23.71

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The following table summarizes certain characteristics of the Company's TBA derivatives at December 31, 2014 and 2013:

December 31, 2014				
Purchase and sale contracts for derivative TBAs	Notional	Implied Cost Basis	Implied Market Value	Net Carrying Value
	(dollars in thousands)			
Purchase contracts	$ -	$ -	$ -	$ -
Sale contracts	(375,000)	(375,430)	(379,688)	(4,258)
Net TBA derivatives	$ (375,000)	$ (375,430)	$ (379,688)	$ (4,258)

December 31, 2013				
Purchase and sale contracts for derivative TBAs	Notional	Implied Cost Basis	Implied Market Value	Net Carrying Value
	(dollars in thousands)			
Purchase contracts	$ 2,625,000	$ 2,733,682	$ 2,722,324	$ (11,357)
Sale contracts	(3,875,000)	(3,923,213)	(3,904,941)	18,271
Net TBA derivatives	$ (1,250,000)	$ (1,189,531)	$ (1,182,617)	$ 6,914

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. The following tables present information about derivative assets and liabilities that are subject to such provisions and can potentially be offset on our Consolidated Statements of Financial Condition as of December 31, 2014 and 2013, respectively.

December 31, 2014	Gross Amounts	Amounts Eligible for Offset: Financial Instruments	Amounts Eligible for Offset: Cash Collateral	Net Amounts
Assets:		(dollars in thousands)		
Interest rate swaps, at fair value	$ 75,225	$ (66,180)	$ -	$ 9,045
Interest rate swaptions, at fair value	5,382	-	-	5,382
TBA derivatives, at fair value	-	-	-	-
MBS options, at fair value	-	-	-	-
Futures contracts, at fair value	117	(117)	-	-
Liabilities:				
Interest rate swaps, at fair value	$ 1,608,286	$ (66,180)	$ (869,302)	$ 672,804
Interest rate swaptions, at fair value	-	-	-	-
TBA derivatives, at fair value	4,258	-	-	4,258
MBS options, at fair value	-	-	-	-
Futures contracts, at fair value	3,769	(117)	-	3,652

December 31, 2013	Gross Amounts	Amounts Eligible for Offset: Financial Instruments	Amounts Eligible for Offset: Cash Collateral	Net Amounts
Assets:		(dollars in thousands)		
Interest rate swaps, at fair value	$ 559,044	$ (408,553)	$ -	$ 150,491
Interest rate swaptions, at fair value	110,361	(24,662)	-	85,699
TBA derivatives, at fair value	20,693	(9,775)	-	10,918
MBS options, at fair value	12,184	(3,292)	-	8,892
Futures contracts, at fair value	3,487	(439)	-	3,048
Liabilities:				
Interest rate swaps, at fair value	$ 1,141,828	$ (408,553)	$ -	$ 733,275
Interest rate swaptions, at fair value	24,662	(24,662)	-	-
TBA derivatives, at fair value	13,779	(9,775)	-	4,004
MBS options, at fair value	16,638	(3,292)	-	13,346
Futures contracts, at fair value	439	(439)	-	-

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)		
	Realized Gains (Losses) on Interest Rate Swaps[(1)]	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, 2014	$ (825,360)	$ (779,333)	$ (948,755)
December 31, 2013	$ (908,294)	$ (101,862)	$ 2,002,200
December 31, 2012	$ (893,769)	$ (2,385)	$ (32,219)

(1) Interest expense related to interest rate swaps is recorded in realized gains (losses) on interest rate swaps on the Consolidated Statements of Operations and Comprehensive Income (Loss).

As of December 31, 2014, the swap portfolio, excluding forward starting swaps, had a weighted average pay rate of 2.49% and a weighted average receive rate of 0.22%. The weighted average pay rate at December 31, 2013 was 2.14% and the weighted average receive rate was 0.20%.

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

	Years Ended December 31, 2014		
Derivative Instruments	Realized Gain (Loss)	Unrealized Gain (Loss)	Net Gains (Losses) on Trading Assets
	(dollars in thousands)		
Net TBA derivatives [(1)]	$ (60,091)	$ (12,763)	$ (72,854)
Net interest rate swaptions	$ (121,345)	$ (20,167)	$ (141,512)
U.S. Treasury futures	$ (30,056)	$ (6,701)	$ (36,757)
			$ (251,123)

	Year Ended December 31, 2013		
Derivative Instruments	Realized Gain (Loss)	Unrealized Gain (Loss)	Amount of Gain/(Loss) Recognized in Net Gains (Losses) on Trading Assets
	(dollars in thousands)		
Net TBA derivatives [(1)]	$ 33,728	$ 6,630	$ 40,358
Net interest rate swaptions	$ (2,697)	$ (15,467)	$ (18,164)
U.S. Treasury futures	$ (38,514)	$ (2,851)	$ (41,365)
			$ (19,171)

[(1)] Includes options on TBA securities.

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 (NYSE). 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, 2014 was approximately $1.5 billion, which represents the maximum amount the Company would be required to pay upon termination. This amount is fully collateralized.

10. CONVERTIBLE SENIOR NOTES

In 2010, the Company issued $600.0 million in aggregate principal amount of its 4% convertible senior notes due 2015 ("4% Convertible Senior Notes") for net proceeds of approximately $582.0 million. The Company has repurchased $492.5 million in aggregate principal amount of its 4% Convertible Senior Notes as of December 31, 2014. Interest on the 4% Convertible Senior Notes is paid semi-annually at a rate of 4% per year and the 4% Convertible Senior Notes will mature on February 15, 2015 unless repurchased or converted earlier. The 4% Convertible Senior Notes are convertible into shares of Common Stock at a conversion rate for each $1,000 principal amount of 4% Convertible Senior Notes. The initial conversion rate was 46.6070, which was equivalent to an initial conversion price of approximately $21.4560 per share of Common Stock. The conversion rate at December 31, 2014 was 88.7389, which is equivalent to a conversion price of approximately $11.2690 per share of Common Stock. The conversion rate is subject to adjustment in certain circumstances. There is no limit on the total number of shares of Common Stock that the Company would be required to issue upon a conversion.

The intrinsic value of the contingent beneficial conversion feature was $110.5 million and $93.2 million at December 31, 2014 and 2013, respectively, which is reflected in Additional paid-in capital on the Company's Consolidated Statements of Financial Condition, and reduces the recorded liability on the 4% Convertible Senior Notes. The unamortized contingent beneficial conversion feature of the 4% Convertible Senior Notes at December 31, 2014 and 2013 of $10.8 million and $26.9 million, respectively, is recognized in interest expense over the remaining life of the notes.

In May 2012, the Company issued $750.0 million in aggregate principal amount of its 5% convertible senior notes due 2015 ("5% Convertible Senior Notes") for net proceeds of approximately $727.5 million. Interest on the 5% Convertible Senior Notes is paid semi-annually at a rate of 5% per year and the 5% Convertible Senior Notes will mature on May 15, 2015 unless repurchased or converted earlier. The 5% Convertible Senior Notes are convertible into shares of Common Stock at a conversion rate for each $1,000 principal amount of 5% Convertible Senior Notes. The initial conversion rate and conversion rate at December 31, 2014 was 52.7969, which was equivalent to an initial conversion price of approximately $18.94 per share of Common Stock, subject to adjustment in certain circumstances. Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of Common Stock or a combination of cash and shares of Common Stock, at the Company's sole discretion. There is no limit on the total number of shares of Common Stock that the Company would be required to issue upon a conversion.

At issuance, the Company determined that the 5% Convertible Senior Notes included an equity component of $11.7 million, which is reflected in Additional paid-in capital on the Company's Consolidated Statements of Financial Condition, and reduces the recorded liability on the 5% Convertible Senior Notes. The $11.7 million discount to the principal amount of the Convertible Senior Notes is recognized in interest expense over the remaining life of the notes. At December 31, 2014 and 2013, $1.5 million and $5.4 million, respectively, of the unamortized discount had not been reflected in interest expense.

The 4% Convertible Senior Notes due 2015 and the 5% Convertible Senior Notes due 2015 rank pari-passu with each other. They are each a general corporate obligation and therefore rank junior to collateralized debt of the Company with respect to secured collateral.

The 4% Convertible Senior Notes and the 5% Convertible Senior Notes rank senior to the 7.875% Series A Cumulative Redeemable Preferred Stock, 7.625% Series C Cumulative Redeemable Preferred Stock and 7.50% Series D Cumulative Redeemable Preferred Stock. The 7.875% Series A Cumulative Redeemable Preferred Stock, 7.625% Series C Cumulative Redeemable Preferred Stock and 7.50% Series D Cumulative Redeemable Preferred Stock rank pari-passu with each other.

The 7.875% Series A Cumulative Redeemable Preferred Stock, 7.625% Series C Cumulative Redeemable Preferred Stock and 7.50% Series D Cumulative Redeemable Preferred Stock rank senior to the common stock of the Company.

11. COMMON STOCK AND PREFERRED STOCK

The Company's authorized shares of capital stock, par value of $0.01 per share, consists of 1,956,937,500 shares classified as common stock, 7,412,500 shares classified as 7.875% Series A Cumulative Redeemable Preferred Stock, 4,600,000 shares classified as 6.00% Series B Cumulative Convertible Preferred Stock, 12,650,000 shares classified as 7.625% Series C Cumulative Redeemable Preferred Stock and 18,400,000 shares classified as 7.50% Series D Cumulative Redeemable Preferred Stock.

(A) Common Stock

At December 31, 2014 and 2013, the Company had issued and outstanding 947,643,079 and 947,432,862 shares of common stock, with a par value of $0.01 per share.

No options were exercised during the year ended December 31, 2014. During the year ended December 31, 2013, 166,000 options were exercised for an aggregate exercise price of $2.2 million. During the year ended December 31, 2012, 603,000 options were exercised for an aggregate exercise price of $8.4 million.

During the year ended December 31, 2014, we raised $2.4 million, by issuing 210,000 shares, through the Direct Purchase and Dividend Reinvestment Program. During the year ended December 31, 2013, we raised $2.9 million, by issuing 219,000 shares, through the Direct Purchase and Dividend Reinvestment Program. During the year ended December 31, 2012, we raised $2.8 million, by issuing 170,000 shares, through the Direct Purchase and Dividend Reinvestment Program.

During the year ended December 31, 2012, 1.3 million shares of Series B Preferred Stock were converted into 4.0 million shares of common stock.

In October 2012, the Company announced that its board of directors ("Board of Directors") had authorized the repurchase of up to $1.5 billion of its outstanding common shares over a 12 month period. All common shares purchased were part of a publicly announced plan in open-market transactions. The repurchase plan expired in October 2013. There were no purchases made by the Company under this repurchase plan during the year ended December 31, 2013.

In March 2012, the Company entered into six separate Distribution Agency Agreements ("Distribution Agency Agreements") with each of Merrill Lynch, Pierce, Fenner & Smith Incorporated, Credit Suisse Securities (USA) LLC, Goldman, Sachs & Co., J.P. Morgan Securities LLC, Morgan Stanley & Co. LLC and RCap Securities, Inc. (together, the Agents). Pursuant to the terms of the Distribution Agency Agreements, the Company may sell from time to time through the Agents, as its sales agents, up to 125,000,000 shares of the Company's common stock. The Company did not make any sales under the Distribution Agency Agreements during the years ended December 31, 2014 and 2013.

(B) Preferred Stock

At December 31, 2014 and 2013, the Company had issued and outstanding 7,412,500 shares of Series A Cumulative Redeemable Preferred Stock ("Series A Preferred Stock"), with a par value of $0.01 per share and a liquidation preference of $25.00 per share plus accrued and unpaid dividends (whether or not declared). The Series A Preferred Stock is entitled to a dividend at a rate of 7.875% per year based on the $25.00 liquidation preference before the common stock is entitled to receive any dividends. The Series A Preferred Stock is redeemable at $25.00 per share plus accrued and unpaid dividends (whether or not declared) exclusively at the Company's option commencing on April 5, 2009 (subject to the Company's right under limited circumstances to redeem the Series A Preferred Stock earlier in order to preserve its qualification as a REIT). Through December 31, 2014, the Company had declared and paid all required quarterly dividends on the Series A Preferred Stock.

At December 31, 2014 and 2013, the Company had issued and outstanding 12,000,000 shares of Series C Preferred Stock, with a par value of $0.01 per share and a liquidation preference of $25.00 per share plus accrued and unpaid dividends (whether or not declared). The Series C Preferred Stock is entitled to a dividend at a rate of 7.625% per year based on the $25.00 liquidation preference before the common stock is entitled to receive any dividends. The Series C Preferred Stock is redeemable at $25.00 per share plus accrued and unpaid dividends (whether or not declared) exclusively at the Company's option commencing on May 16, 2017 (subject to the Company's right under limited circumstances to redeem the Series C Preferred Stock earlier in order to preserve its qualification as a REIT or under limited circumstances related to a change of control of the Company). Through December 31, 2014, the Company had declared and paid all required quarterly dividends on the Series C Preferred Stock.

At December 31, 2014 and 2013, the Company had issued and outstanding 18,400,000 shares of Series D Preferred Stock, with a par value of $0.01 per share and a liquidation preference of $25.00 per share plus accrued and unpaid dividends (whether or not declared). The Series D Preferred Stock is entitled to a dividend at a rate of 7.50% per year based on the $25.00 liquidation preference before the common stock is entitled to receive any dividends. The Series D Preferred Stock is redeemable at $25.00 per share plus accrued and unpaid dividends (whether or not declared) exclusively at the Company's option commencing on September 13, 2017 (subject to the Company's right under limited circumstances to redeem the Series D Preferred Stock earlier in order to preserve its qualification as a REIT or under limited circumstances related to a change of control of the Company). Through December 31, 2014, the Company had declared and paid all required quarterly dividends on the Series D Preferred Stock.

(C) Distributions to Stockholders

During the year ended December 31, 2014, the Company declared dividends to common stockholders totaling $1.1 billion, or $1.20 per common share, of which $284.3 million, or $0.30 per common share, was paid to stockholders on January 29, 2015. During the

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year ended December 31, 2014, the Company declared dividends to Series A Preferred stockholders totaling approximately $14.6 million or $1.97 per share, Series C Preferred stockholders totaling approximately $22.9 million or $1.91 per share, Series D Preferred stockholders totaling approximately $34.5 million or $1.88 per share.

During the year ended December 31, 2013, the Company declared dividends to common stockholders totaling $1.4 billion, or $1.50 per common share, of which $284.2 million, or $0.30 per common share, was paid to stockholders on January 31, 2014. During the year ended December 31, 2013, the Company declared dividends to Series A Preferred stockholders totaling approximately $14.6 million or $1.97 per share, Series C Preferred stockholders totaling approximately $22.9 million or $1.91 per share, Series D Preferred stockholders totaling approximately $34.5 million or $1.88 per share.

During the year ended December 31, 2012, the Company declared dividends to common stockholders totaling $2.0 billion or $2.05 per share, of which $432.2 million were paid to stockholders on January 29, 2013. During the year ended December 31, 2012, the Company declared dividends to Series A Preferred stockholders totaling approximately $14.6 million or $1.97 per share, Series B Preferred stockholders totaling approximately $289,000 or $0.375 per share, Series C Preferred stockholders totaling approximately $14.3 million or $1.19 per share, Series D Preferred stockholders totaling approximately $10.4 million or $0.56 per share.

12. INTEREST INCOME AND INTEREST EXPENSE

The table below presents the components of the Company's interest income and interest expense for the years ended December 31, 2014, 2013 and 2012.

	Years Ended December 31,		
	December 31, 2014	December 31, 2013	December 31, 2012
Interest income:	(dollars in thousands)		
Investment Securities	$ 2,467,783	$ 2,788,354	$ 3,217,648
Commercial investment portfolio[(1)]	161,837	81,445	7,621
U.S. Treasury securities	1,329	29,081	17,222
Securities loaned	114	8,788	9,903
Reverse repurchase agreements	1,335	10,459	6,218
Other	249	435	533
Total interest income	2,632,647	2,918,562	3,259,145
Interest expense:			
Repurchase agreements	417,194	530,170	577,243
Convertible Senior Notes	87,293	67,057	67,221
U.S. Treasury securities sold, not yet purchased	1,076	20,235	15,114
Securities borrowed	95	6,785	7,594
Securitized debt of consolidated VIE	6,350	-	-
Participation sold	651	467	-
Total interest expense	512,659	624,714	667,172
Net interest income	$ 2,119,988	$ 2,293,848	$ 2,591,973

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

13. GOODWILL

At December 31, 2014 and 2013, goodwill totaled $94.8 million. In 2013, the Company recorded a $32.4 million reduction of goodwill related to Merganser, which was comprised of a $24.0 million impairment charge based on market information that became available to the Company and an $8.4 million reduction resulting from the sale of the net assets and operations of the entity. The Company also recorded $71.8 million of additional goodwill associated with the acquisition of CreXus in 2013.

14. 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, 2014, 2013 and 2012.

	For the Years Ended		
	December 31, 2014	December 31, 2013	December 31, 2012
	(dollars in thousands, except per share data)		
Net income (loss) attributable to Annaly	(842,083)	3,729,698	1,735,900
Less: Preferred stock dividends	71,968	71,968	39,530
Net income (loss) per share available (related) to common stockholders, prior to adjustment for dilutive potential common shares, if necessary	(914,051)	3,657,730	1,696,370
Add: Interest on Convertible Senior Notes, if dilutive	-	67,056	27,843
Net income (loss) available to common stockholders, as adjusted	(914,051)	3,724,786	1,724,213
Weighted average shares of common stock outstanding-basic	947,539,294	947,337,915	972,902,459
Add: Effect of stock awards and Convertible Senior Notes, if dilutive	-	48,219,111	32,852,598
Weighted average shares of common stock outstanding-diluted	947,539,294	995,557,026	1,005,755,057
Net income (loss) per share available (related) to common share:			
Basic	$ (0.96)	$ 3.86	$ 1.74
Diluted	$ (0.96)	$ 3.74	$ 1.71

Options to purchase 2.3 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 year ended December 31, 2014. Options to purchase 3.5 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 year ended December 31, 2013. Options to purchase 2.8 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 year ended December 31, 2012.

15. LONG-TERM STOCK INCENTIVE PLAN

The Company adopted the 2010 Equity Incentive Plan (the "Plan"), which authorizes the Compensation Committee of the Board of Directors 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. The Company had previously adopted a long term stock incentive plan for executive officers, key employees and non-employee directors (the "Prior Plan"). The Prior Plan authorized the Compensation Committee of the Board of Directors to grant awards, including non-qualified options as well as incentive stock options as defined under Section 422 of the Code. The Prior Plan authorized the granting of options or other awards for an aggregate of the greater of 500,000 shares or 9.5% of the diluted outstanding shares of the Company's common stock, up to a ceiling of 8,932,921 shares. No further awards will be made under the Prior Plan, although existing awards remain effective.

Stock options were issued at the 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 following table sets forth activity related to the Company's stock options awarded under the Plan:

	For the Years Ended			
	December 31, 2014		December 31, 2013	
	Number of Shares	Exercise Price	Number of Shares	Exercise Price
Options outstanding at the beginning of year	3,581,752	$ 15.44	5,618,686	$ 15.74
Granted	-	-	-	-
Exercised	-	-	(166,375)	13.25
Forfeited	(1,016,667)	15.07	(1,513,934)	16.22
Expired	(305,750)	17.34	(356,625)	17.91
Options outstanding at the end of period	2,259,335	$ 15.35	3,581,752	$ 15.44
Options exercisable at the end of the period	2,259,335	$ 15.35	3,581,752	$ 15.44

The weighted average remaining contractual term was approximately 3.1 years and 3.8 years for stock options outstanding and exercisable as of December 31, 2014 and 2013, respectively.

As of December 31, 2014 and 2013, there was no unrecognized compensation cost related to nonvested share-based compensation awards.

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16. INCOME TAXES

For the year ended December 31, 2014 the Company was qualified to be taxed as a REIT under Code Sections 856 through 860. As a REIT, the Company is not subject to 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 such as 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. For years prior to 2013, the Company retained the amount of taxable income attributable to certain employee remuneration deductions disallowed for tax purposes pursuant to Section 162(m) of the Code ("Section 162(m)"). As a result of the externalization of management effective as of July 1, 2013, the Company was not subject to the Section 162(m) disallowance for the 2013 tax year.

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 year ended December 31, 2014, the Company recorded $5.9 million of income tax expense for income attributable to its TRSs.

During the year ended December 31, 2013, the Company recorded $8.2 million of income tax expense for income attributable to its TRSs.

During the year ended December 31, 2012, the Company recorded $13.8 million of income tax expense for income attributable its TRSs. During the year ended December 31, 2012, the Company also recorded $22.1 million of income tax expense for a portion of earnings retained based on Section 162(m) limitations.

The Company's 2013, 2012 and 2011 federal, state and local tax returns remain open for examination.

17. LEASE COMMITMENTS AND CONTINGENCIES

Commitments

The Company had a non-cancelable lease for office space which commenced in May 2002 and expired in December 2014. In June 2014, the Company entered into a non-cancelable lease for office space which commenced in July 2014 and expires in September 2025. FIDAC has a lease for office space which commenced in October 2010 and expires in February 2016. The lease expense for the years ended December 31, 2014, 2013, and 2012 were $3.0 million, $2.3 million and $2.5 million, respectively. The Company's aggregate future minimum lease payments total $37.5 million. The following table details the lease payments.

Years Ending December 31,	**Lease Commitments**
	(dollars in thousands)
2015	$ 1,199
2016	3,591
2017	3,565
2018	3,565
2019	3,565
Later years	21,992
	$ 37,477

The Company had no material unfunded loan commitments as of December 31, 2014 and 2013.

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.

18. RISK MANAGEMENT

The primary risks to the Company are liquidity and investment/market 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 pledges or liquidation of 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 Investment Securities at an inopportune time when prices are depressed. The Company has established policies and procedures for mitigating risks, including conducting scenario 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 are guaranteed by those respective agencies and the payment of principal and interest on Ginnie Mae Agency mortgage-backed securities are backed by the full faith and credit of the U.S. government. Principal and interest on Agency debentures are guaranteed by the agency issuing the debenture. Substantially all of the Company's Investment Securities have an actual or implied "AAA" rating.

The Company faces credit risk on the portions of its portfolio which are not Agency mortgage-backed securities, Agency debentures or U.S. Treasury securities. The Company is exposed to credit risk on CRE Debt and Preferred Equity Investments, investments in commercial real estate and corporate debt. 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. RCAP REGULATORY REQUIREMENTS

RCap 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, RCap is required to maintain minimum net capital by FINRA. As of December 31, 2014 RCap had a minimum net capital requirement of $0.3 million. RCap consistently operates with capital in excess of its regulatory capital requirements. RCap's regulatory net capital as defined by SEC Rule 15c3-1, as of December 31, 2014 was $399.8 million with excess net capital of $399.5 million.

20. RELATED PARTY TRANSACTIONS

Investment in Affiliate, Available-For-Sale Equity Security

At December 31, 2014, the Company's available-for-sale equity securities represented shares of Chimera Investment Corporation ("Chimera"), which are reported at fair value. The Company owned approximately 45.0 million shares of Chimera at a fair value of approximately $143.0 million at December 31, 2014 and approximately 45.0 million shares of Chimera at a fair value of approximately $139.4 million at December 31, 2013. The Company evaluates the near term prospects of its current investment in Chimera in relation to the severity and length of time of impairment, if any. At December 31, 2014 and 2013, the investment in Chimera had unrealized gains of $4.2 million and $0.6 million, respectively.

Advisory fees

For the year ended December 31, 2014, the Company recorded advisory fees from Chimera totaling $31.3 million. In August 2014, the management agreement between FIDAC and Chimera was amended and restated to amend certain of the terms and conditions of the prior agreement. Among other amendments to the terms of the prior agreement, effective August 8, 2014, the management fee was increased from 0.75% to 1.20% of Chimera's gross stockholders' equity (as defined in the amended and restated management agreement). For the year ended December 31, 2013, the Company recorded advisory fees from Chimera and CreXus, prior to its acquisition, totaling $31.1 million. At December 31, 2014 and 2013, the Company had amounts receivable from Chimera of $10.4 million and $6.8 million, respectively.

Management Agreement

The Company and the Manager have entered into a management agreement pursuant to which the Company's management is conducted by the Manager through the authority delegated to it in the Management Agreement and pursuant to the policies established by the Board of Directors (the "Externalization"). The management agreement was effective as of July 1, 2013 and applicable for the entire 2013 calendar year and was amended on November 5, 2014 (the management agreement, as amended, is referred to as "Management Agreement").

Pursuant to the terms of the Management Agreement, the Company pays the Manager a monthly management fee in an amount equal to 1/12th of 1.05% of stockholders' equity, as defined in the Management Agreement, for its management services. For the year ended December 31, 2014 and 2013, the compensation and management fee was $155.6 million (includes $24.2 million related to compensation expense for the employees of the Company's subsidiaries) and $167.4 million (includes $49.2 million related to compensation expense for the employees of the Company's subsidiaries). At December 31, 2014 and 2013, the Company had amounts payable to the Manager of $11.0 million and $16.2 million, respectively.

The Management Agreement provides for a two year term ending December 31, 2016 with automatic two-year renewals unless at least two-thirds of the Company's independent directors or the holders of a majority of the Company's outstanding shares of common stock elect to terminate the agreement in their sole discretion and for any or no reason. At any time during the term or any renewal term the Company may deliver to the Manager written notice of the Company's intention to terminate the Management Agreement. The Company must designate a date not less than one year from the date of the notice on which the Management Agreement will terminate. The Management Agreement also provides that the Manager may terminate the Management Agreement by providing to the Company prior written notice of its intention to terminate the Management Agreement no less than one year prior to the date designated by the Manager on which the Manager would cease to provide services or such earlier date as determined by the Company in its sole discretion.

Effective July 1, 2013, a majority of the Company's employees were terminated by the Company and were hired by the Manager. The Company has a limited number of employees following the Externalization, all of whom are employees of the Company's subsidiaries for regulatory or corporate efficiency reasons. All compensation expenses associated with such retained employees reduce the management fee. Pursuant to a pro forma calculation that computed the management fee as though it was in effect beginning January 1, 2013, the Company paid the Manager an amount equal to the pro forma calculation minus the actual compensation paid to the Company's and its subsidiaries' employees from January 1, 2013 to June 30, 2013.

The Management Agreement may be amended or modified by agreement between the Company and the Manager. There is no termination fee for a termination of the Management Agreement by either the Company or the Manager.

Other

During the year ended December 31, 2014, the Company made a one-time payment totaling $23.8 million to Chimera to resolve issues raised in derivative demand letters sent to Chimera's board of directors. This amount is included as a component of Other income (loss) in the Company's Consolidated Statements of Comprehensive Income (Loss).

21. SUMMARIZED QUARTERLY RESULTS (UNAUDITED)

The following is a presentation of summarized quarterly results of operations for the years ended December 31, 2014 and 2013.

	For the Quarters Ended			
	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014
	(dollars in thousands, expect per share data)			
Interest income	$ 648,144	$ 644,640	$ 683,962	$ 655,901
Interest expense	134,512	127,069	126,107	124,971
Net interest income	513,632	517,571	557,855	530,930
Total other income (loss)	(1,113,659)	(109,013)	(842,030)	(682,902)
Less: Total general and administrative expenses	58,454	51,317	52,189	47,378
Income before income taxes	(658,481)	357,241	(336,364)	(199,350)
Less: Income taxes	(209)	2,385	(852)	4,001
Net income (loss)	(658,272)	354,856	(335,512)	(203,351)
Less: Net income attributable to noncontrolling interest	(196)	-	-	-
Less: Dividends on preferred stock	17,992	17,992	17,992	17,992
Net income (loss) available (related) to common stockholders	$ (676,068)	$ 336,864	$ (353,504)	$ (221,343)
Net income (loss) available (related) per share to common stockholders:				
Basic	$ (0.71)	$ 0.36	$ (0.37)	$ (0.23)
Diluted	$ (0.71)	$ 0.35	$ (0.37)	$ (0.23)

	For the Quarters Ended			
	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013
	(dollars in thousands, expect per share data)			
Interest income	$ 771,249	$ 697,160	$ 712,936	$ 737,217
Interest expense	137,393	145,476	164,255	177,590
Net interest income	633,856	551,684	548,681	559,627
Total other income (loss)	452,944	(299,925)	1,154,755	368,370
Less: Total general and administrative expenses	56,294	58,744	65,131	51,912
Income before income taxes	1,030,506	193,015	1,638,305	876,085
Less: Income taxes	1,757	557	92	5,807
Net income (loss)	1,028,749	192,458	1,638,213	870,278
Less: Dividends on preferred stock	17,992	17,992	17,992	17,992
Net income (loss) available (related) to common stockholders	$ 1,010,757	$ 174,466	$ 1,620,221	$ 852,286
Net income (loss) available (related) per share to common stockholders:				
Basic	$ 1.07	$ 0.18	$ 1.71	$ 0.90
Diluted	$ 1.03	$ 0.18	$ 1.64	$ 0.87

Schedule III - Real Estate and Accumulated Depreciation

December 31, 2014

(dollars in thousands)

Location	Number of Properties	Encumbrances	Initial Cost to Company		Cost Capitalized Subsequent to Acquisition		Gross Amounts Carried at Close of Period 12/31/14			Accumulated Depreciation	Year of Construction	Date Acquired	Weighted-Average Depreciable Life (in years)
			Land	Buildings and Improvements	Improvements	Capitalized Costs	Land	Buildings and Improvements	Total				
Industrial - Phoenix - AZ	2	$ 16,600	$ 6,011	$ 27,046	$ -	$ -	$ 6,011	$ 27,046	$ 33,057	$ (1,836)	1997-1999	4/18/2013	32
Industrial - Las Vegas - NV	1	2,505	628	4,053	-	-	628	4,053	4,681	(210)	1988	4/18/2013	39
Retail - Knoxville - TN	1	12,350	3,503	13,309	-	-	3,503	13,309	16,812	(331)	2002	4/1/2014	36
Retail - Newport News - VA	1	11,025	6,394	12,046	-	-	6,394	12,046	18,440	(245)	1994	6/2/2014	37
Retail - Amherst - NY	1	8,270	2,131	9,740	-	-	2,131	9,740	11,871	(127)	1986	11/10/2014	30
Retail - Cheektowaga - NY	1	9,447	1,961	12,259	-	-	1,961	12,259	14,220	(180)	1978	11/10/2014	27
Retail - Jamestown - NY	1	7,356	820	4,915	-	-	820	4,915	5,735	(123)	1997	11/10/2014	31
Retail - Penfield - NY	1	23,558	4,121	22,413	-	-	4,121	22,413	26,534	(341)	1978	11/10/2014	26
Retail - Loganville - GA	1	7,230	3,217	8,386	-	-	3,217	8,386	11,603	(92)	1996	11/10/2014	31
Retail - Chillicothe - OH	1	7,887	1,262	10,819	-	-	1,262	10,819	12,081	(102)	1981	11/10/2014	28
Retail - Irondequoit - NY	1	15,000	2,438	14,684	-	-	2,438	14,684	17,122	(193)	1972	11/10/2014	29
Retail - Orchard Park - NY	1	12,888	4,204	20,617	-	-	4,204	20,617	24,821	(264)	1997, 2000	11/10/2014	34
Retail - LeRoy - NY	1	3,492	374	4,922	-	-	374	4,922	5,296	(62)	1997	11/10/2014	30
Retail - Ontario - NY	1	5,406	575	6,813	-	-	575	6,813	7,388	(72)	1998	11/10/2014	33
Retail - Warsaw - NY	1	3,416	478	4,117	-	-	478	4,117	4,595	(46)	1998	11/10/2014	31
	16	**$ 146,430**	**$ 38,117**	**$ 176,139**	**$ -**	**$ -**	**$ 38,117**	**$ 176,139**	**$ 214,256**	**$ (4,224)**			

The following table presents our real estate activity during the year ended December 31, 2014 (in thousands):

Beginning balance, January 1, 2014	**$ 60,132**
Additions during the year:	
Acquisitions	176,519
Total additions	176,519
Deductions during the year:	
Carrying value of real estate sold	23,270
Depreciation	3,349
Total deductions	26,619
Ending balance, December 31, 2014	**$ 210,032**

SCHEDULE IV

Schedule IV - Mortgage Loans on Real Estate

December 31, 2014

(dollars in thousands)

Description	Location	Prior Liens [1]	Face Amount	Carrying Amount	Interest Rate [2]	Libor Floor	Payment Terms	Maturity Date [3]	Months to Open Period (2% Penalty or Less)
First Mortgages:									
Office	CA	$ -	$ 65,000	$ 64,501	LIBOR+3.00%	0.25%	Interest Only	3/1/2019	8
Multi-Family	FL	-	26,000	26,000	LIBOR+4.50%	0.25%	Interest Only	5/9/2019	5
Multi-Family	CA	-	13,000	12,951	LIBOR+4.70%	0.20%	Interest Only	8/1/2019	3
Office	FL	-	12,166	12,015	EURIBOR+5.00%	N/A	Interest Only	12/6/2019	11
Multi-Family	CA	-	8,000	7,970	LIBOR+4.70%	0.20%	Interest Only	8/1/2019	7
Mixed	NY	-	230,000	230,000	10.00%	N/A	Interest Only	6/30/2015	0
Retail [4]	CO	13,931	17,164	17,485	5.58%	N/A	Amortizing	5/1/2017	23
Panoramic View	NY	-	12,973	12,973	Non-accrual	N/A	IO/Sellout	12/1/2013	0
First Mortgages - Securitized:									
Multi-Family	IL	-	115,000	114,780	LIBOR+4.10%	0.20%	Interest Only	11/1/2017	0
Hotel	CO	-	51,000	50,964	LIBOR+5.45%	0.25%	Interest Only	11/9/2018	3
Multi-Family	AZ	-	48,685	48,462	LIBOR+5.00%	0.25%	Interest Only	1/1/2018	6
Industrial	TX	-	46,500	46,432	LIBOR+5.40%	1.00%	Interest Only	8/10/2017	0
Office	OH	-	38,270	38,221	LIBOR+5.50%	0.25%	Interest Only	8/9/2018	1
Retail	IN	-	37,680	37,680	LIBOR+5.75%	0.92%	Interest Only	11/9/2016	0
Hotel	GA	-	20,156	20,051	LIBOR+4.95%	0.20%	Interest Only	8/9/2018	0
Office	OK	-	17,500	17,476	LIBOR+5.75%	0.25%	Interest Only	9/6/2018	0
Hotel	LA	-	15,500	15,379	LIBOR+5.75%	1.00%	Interest Only	8/9/2018	14
Hotel	LA	-	9,250	9,189	LIBOR+6.5%	0.25%	Interest Only	10/1/2018	15
Mezzanine Loans:									
Retail	Various	387,161	86,067	86,506	11.25%	N/A	Amortizing	4/10/2017	25
Office	Various	575,522	65,968	65,929	LIBOR+8.75%	0.75%	Interest Only	1/20/2017	4
Industrial	Various	100,000	50,000	49,928	8.11%	N/A	Interest Only	6/28/2022	6
Retail	Various	574,600	43,900	43,945	7.71%	N/A	Amortizing	12/1/2015	0
Mixed	OH	137,250	37,400	37,400	9.50%	N/A	Interest Only	11/22/2023	59
Hotel	Various	175,000	25,000	25,034	LIBOR+9.95%	0.20%	Interest Only	2/14/2019	25
Office	NY	157,449	18,000	18,041	11.15%	N/A	Interest Only	9/6/2021	69
Hotel	NY	49,051	16,677	16,677	LIBOR+9.83%	1.00%	Interest Only	9/8/2015	0
Office	GA	50,604	15,483	15,452	12.17%	N/A	Interest Only	4/9/2015	0
Hotel	NY	65,728	12,753	12,753	LIBOR+11.61%	1.00%	Interest Only	9/8/2015	0
Hotel	Various	50,525	12,375	12,408	LIBOR+8.65%	0.16%	Interest Only	8/9/2019	1
Office	CA	-	11,473	11,419	LIBOR+26.33%	0.25%	Interest Only	3/1/2019	14
Office	MD	56,280	10,130	10,091	11.20%	N/A	Interest Only	8/1/2017	26
Office	MD	55,547	9,942	9,904	11.70%	N/A	Interest Only	8/1/2017	26
Retail	MA	64,500	10,000	10,000	10.00%	N/A	Interest Only	9/6/2023	21
Hotel	CA	50,000	10,000	10,000	10.25%	N/A	Interest Only	2/6/2019	46
Office	NY	62,000	10,000	9,977	10.00%	N/A	Interest Only	10/6/2018	22
Office	TX	43,500	9,187	9,122	9.50%	N/A	Interest Only	9/1/2018	24
Office	GA	56,833	9,000	9,000	11.00%	N/A	Interest Only	7/10/2015	0
Office	LA	64,000	8,700	8,700	10.75%	N/A	Interest Only	10/29/2023	46
Office	CA	45,300	8,700	8,760	LIBOR+9.50%	0.25%	Interest Only	3/31/2019	13
Multi-Family	OH	83,549	8,300	8,236	10.25%	N/A	Interest Only	12/1/2022	16
Hotel	CA	42,872	8,000	8,031	12.25%	N/A	Interest Only	4/1/2017	3
Office	TX	52,000	7,000	7,000	10.10%	N/A	Interest Only	12/1/2024	35
Office	CO	13,750	6,000	6,000	11.06%	N/A	Interest Only	8/6/2018	7
Hotel	LA	-	5,000	5,000	13.50%	N/A	Interest Only	8/9/2018	14
Office	TX	72,069	7,418	7,418	10.25%	N/A	Interest Only	8/1/2018	19
Preferred Equity:									
Multi-Family	CA	361,304	83,385	82,767	10.00%	N/A	Interest Only	9/16/2020	9
Multi-Family	CA	70,468	31,500	31,266	10.00%	N/A	Interest Only	9/16/2020	9
Condo	NY	181,000	51,000	50,688	12.00%	N/A	Interest Only	11/21/2018	0
Multi-Family	MD	371,420	39,770	39,253	11.00%	N/A	Interest Only	8/1/2022	56
Mixed	PA	26,000	9,000	8,931	11.00%	N/A	Interest Only	11/27/2018	11
		$ 4,109,213	**$ 1,520,972**	**$ 1,518,165**					

(1) Represents third-party priority liens.

(2) LIBOR represents the one month London Interbank Offer Rate, EURIBOR represents the one month Eurodollar deposit rate.

(3) Assumes all extension options are exercised.

(4) Includes senior position sold to third party that did not qualify for GAAP sale accounting. The Company's economic interest is limited to a B-Note with an outstanding face of $3.8 million and a basis of approximately $1.9 million.

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 26, 2015

By: /s/ Wellington J. Denahan
Wellington J. Denahan
(Chief Executive Officer, and authorized officer of registrant)

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
/s/ Wellington J. Denahan Wellington J. Denahan	Chairman of the board of directors and Chief Executive Officer (principal executive officer)	February 26, 2015
/s/ Glenn A. Votek Glenn A. Votek	Chief Financial Officer (principal financial officer of the registrant)	February 26, 2015
/s/ Kevin P. Brady Kevin P. Brady	Director	February 26, 2015
/s/ Francine J. Bovich Francine J. Bovich	Director	February 26, 2015
/s/ Jonathan D. Green Jonathan D. Green	Director	February 26, 2015
/s/ Michael E. Haylon Michael E. Haylon	Director	February 26, 2015
/s/ Kevin G. Keyes Kevin G. Keyes	President and Director	February 26, 2015
/s/ E. Wayne Nordberg E. Wayne Nordberg	Director	February 26, 2015
/s/ John H. Schaefer John H. Schaefer	Director	February 26, 2015
/s/ Donnell A. Segalas Donnell A. Segalas	Director	February 26, 2015

Exhibit 12.1

Ratio of Earnings To Combined Fixed Charges And Preferred Stock Dividends and Ratio of Earnings To Fixed Charges (Unaudited)

The following table sets forth the calculation of our ratio of earnings to combined fixed charges and preferred stock dividends for the years shown:

	For the Years Ended December 31,				
	2014	2013	2012	2011	2010
	(dollars in thousands)				
Net income (loss) before income taxes and noncontrolling interest	(836,954)	3,737,911	1,771,812	402,372	1,299,769
Add: Fixed charges (interest expense)[1]	1,338,019	1,533,008	1,560,941	1,362,721	1,163,332
Earnings as adjusted	501,065	5,270,919	3,332,753	1,765,093	2,463,101
Fixed charges (interest expense) + preferred stock dividend	1,409,987	1,604,976	1,600,471	1,379,575	1,181,365
Ratio of earnings to combined fixed charges and preferred stock dividends	0.36	3.28	2.08	1.28	2.08
Ratio of earnings to fixed charges	0.37	3.44	2.14	1.30	2.12

(1) Fixed charges include realized gains (losses) on interest rate swaps.

Exhibit 21.1

Subsidiaries of Registrant

- Fixed Income Discount Advisory Company, Delaware corporation
- RCap Securities, Inc., Maryland corporation
- Annaly Middle Market Lending LLC, Delaware limited liability company
- Annaly Commercial Real Estate Group, Inc., Maryland corporation
    - Annaly CRE L LLC, Delaware limited liability company
    - Annaly CRE LLC, Delaware limited liability company
        - NLY 2014-FL1 Depositor LLC, Delaware limited liability company
        - Annaly CRE WF Parent LLC, Delaware limited liability company
            - Annaly CRE WF LLC, Delaware limited liability company
    - Annaly CRE Sub Holding LLC, Delaware limited liability company
        - Annaly CRE Sub Holding 2014-FL1 LLC, Delaware limited liability company
        - Annaly CRE KLSF B Holder LLC, Delaware limited liability company
        - Annaly CRE Sub Holding Investor LLC, Delaware limited liability company
            - Annaly CRE Sub 2015-1 LLC, Delaware limited liability company
    - ACREG Investment Holdings LLC, Delaware limited liability company
        - ACREG Tops Holdings LLC, Delaware limited liability company
            - ACREG Tops Investment LLC
                - TK11 Venture LLC (90% owned subsidiary), Delaware limited liability company
                    - TK11 Holdings LLC, Delaware limited liability company
                    - Amherst TK Owner LLC, Delaware limited liability company
                    - Cheektowaga TK Owner LLC, Delaware limited liability company
                    - Irondequoit TK Owner LLC, Delaware limited liability company
                    - Jamestown TK Owner LLC, Delaware limited liability company
                    - LeRoy TK Owner LLC, Delaware limited liability company
                    - Ontario TK Owner LLC, Delaware limited liability company
                    - Orchard Park TK Owner LLC, Delaware limited liability company
                    - Penfield TK Owner LLC, Delaware limited liability company
                    - Warsaw TK Owner LLC, Delaware limited liability company
                    - Chillicothe TK Owner LLC, Delaware limited liability company
                    - Loganville TK Owner LLC, Delaware limited liability company
    - Annaly CRE Holdings LLC, Delaware limited liability company
        - ACREG SF PE I LLC, Delaware limited liability company
        - ACREG SF PE II LLC, Delaware limited liability company
        - ACREG E66 PE I LLC, Delaware limited liability company
        - ACREG PA PE I LLC, Delaware limited liability company
        - Annaly MD PE I LLC, Delaware limited liability company
        - CreXus S Holdings (Holdings Co) LLC, Delaware limited liability company
            - CHPHC Holding Company LLC, Delaware limited liability company
                - CHPHC Hotel II LLC, Delaware limited liability company
                - CHPHC Hotel III LLC, Delaware limited liability company
                - CHPHC Hotel V LLC, Delaware limited liability company
                - CHPHC Hotel VII LLC, Delaware limited liability company
                - CHPHC Hotel X LLC, Delaware limited liability company
    - Annaly Net Lease Holdings LLC, Delaware limited liability company
        - Crexus AZ Holdings 1 LLC, Delaware limited liability company
        - Crexus NV Holdings 1 LLC, Delaware limited liability company
        - ACREG 3100 South Mall NL LLC, Delaware limited liability company
        - ACREG 12151 Jefferson NL LLC, Delaware limited liability company
        - ACREG AZO Portfolio NL LLC, Delaware limited liability company
- Shannon Funding LLC, Delaware limited liability company
- Truman Insurance Company LLC, Missouri limited liability company
- FIDAC Housing Cycle Fund LLC, Delaware limited liability company

  - FHC Master Fund Ltd., Cayman Islands exempted company
- Annaly Funding LLC, Delaware limited liability company
  - Annaly Funding TRS LLC, Delaware limited liability company

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements No. 333-200811 and No. 333-186465 on Forms S-3 and Registration Statement No. 333-169923 on Form S-8 of our report dated February 26, 2015, 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, 2014.

/s/ Ernst and Young LLP
New York, New York
February 26, 2015

Exhibit 31.1

CERTIFICATIONS

I, Wellington J. Denahan, 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 26, 2015

/s/Wellington J. Denahan
Chairman and Chief Executive Officer

Exhibit 31.2

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 26, 2015

/s/Glenn A. Votek
Chief Financial Officer (Principal Financial Officer)

Exhibit 32.1

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 period ended December 31, 2014 to be filed with the Securities and Exchange Commission on or about the date hereof (the "Report"), I, Wellington J. Denahan, 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/ Wellington J. Denahan
Wellington J. Denahan
Chairman and Chief Executive Officer
February 26, 2015

Exhibit 32.2

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 period ended December 31, 2014 to be filed with the Securities and Exchange Commission on or about the date hereof (the "Report"), I, Glenn A. Votek, 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/ Glenn A. Votek
Glenn A. Votek
Chief Financial Officer (Principal Financial Officer)
February 26, 2015

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NEW YORK, NY 10036

WWW.ANNALY.COM

Our website is www.annaly.com. We make available on this website under "Investor Relations - 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 amendments to those reports as soon as reasonably practicable after we electronically file or furnish such materials to the SEC.