

ANNALY®

2021

Annual Report

ANNALY[®]

Progressive Approach, Proven Results

Annaly combines the power of capital together with sound strategy to best serve our shareholders. With a culture that champions diversity and talent, we work relentlessly to optimize risk-adjusted returns.

With \$13 billion in permanent capital⁽¹⁾, we support two fundamental pillars of the American economy: housing and business.



\$89bn

Total Assets Across
Annaly's Diverse
Investment Strategies⁽²⁾



\$13bn

Permanent
Capital⁽¹⁾



\$9.3bn

Unencumbered
Assets



925%

Total Shareholder
Return Since IPO⁽³⁾



\$22bn+

Common and Preferred
Dividends Declared⁽⁴⁾



650k+

American Homes
Financed⁽⁵⁾



\$3bn+

of Loans to Self-Employed,
Creditworthy Borrowers That
Have Challenges Accessing
Mortgage Credit⁽⁶⁾



\$330mm+

Investments Supporting
Communities⁽⁷⁾

Note: Please refer to Glossary for defined terms and "Annaly | Progressive Approach, Proven Results" in Endnotes section for footnoted information.



POWER

The industry leading mREIT with a differentiated model composed of three sizeable, diversified investment strategies: Agency, Residential Credit and Middle Market Lending

PROVEN

Proven over 20+ years to be a stable source of yield for shareholders, we continue to deliver attractive investment returns throughout market cycles

PEOPLE

Our people are our greatest asset and we are committed to promoting our employees' engagement, development and full potential

Power of Annaly

The industry leading mREIT with a differentiated investing model

Annaly's Size, Scale and Diversification

~12x

Larger than Median mREIT by Market Cap⁽¹⁾

\$13bn

Permanent Capital⁽²⁾

9

Financing Options

\$9.3bn

Unencumbered Assets



Scale

Annaly uses its size and scale to support two fundamental pillars of the American economy: housing and business



Diversified

Annaly is able to efficiently diversify investments across its businesses through a rigorous shared capital model and capital allocation process



Financing

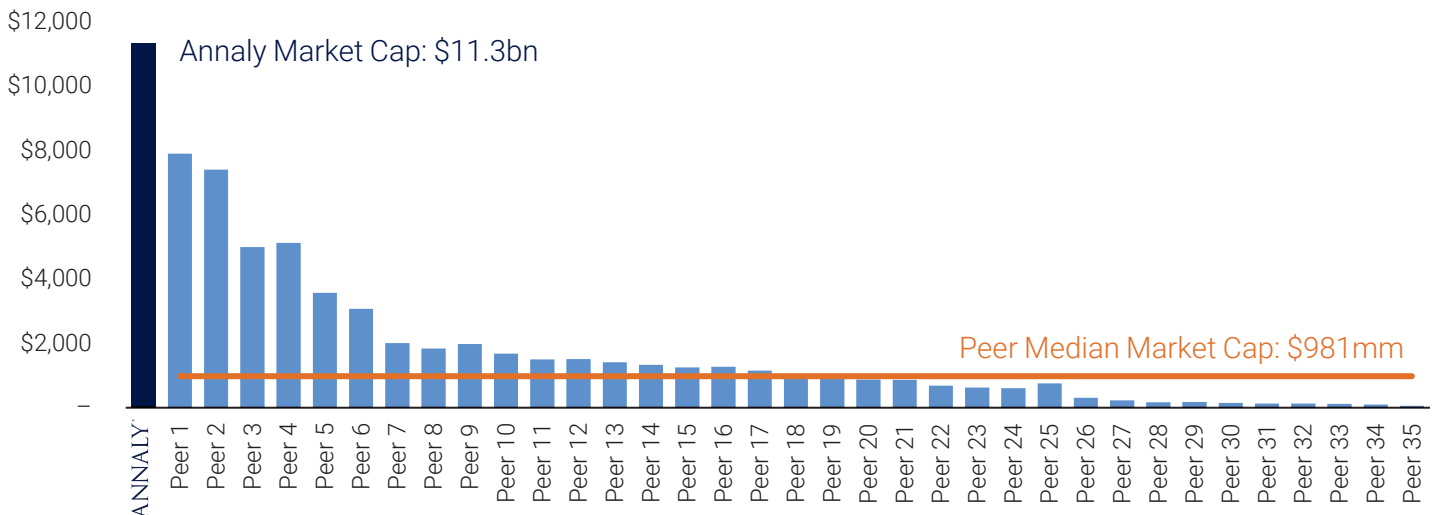
Annaly's deep and diverse financing sources include traditional repo, warehouse lines and financing through our own broker dealer



Liquid

Our diversified, lower leveraged strategy results in greater liquidity, including \$9.3bn of total unencumbered assets and \$5.2bn of cash and unencumbered Agency MBS

Market Cap (\$mm) | Annaly vs. mREIT Peers⁽¹⁾



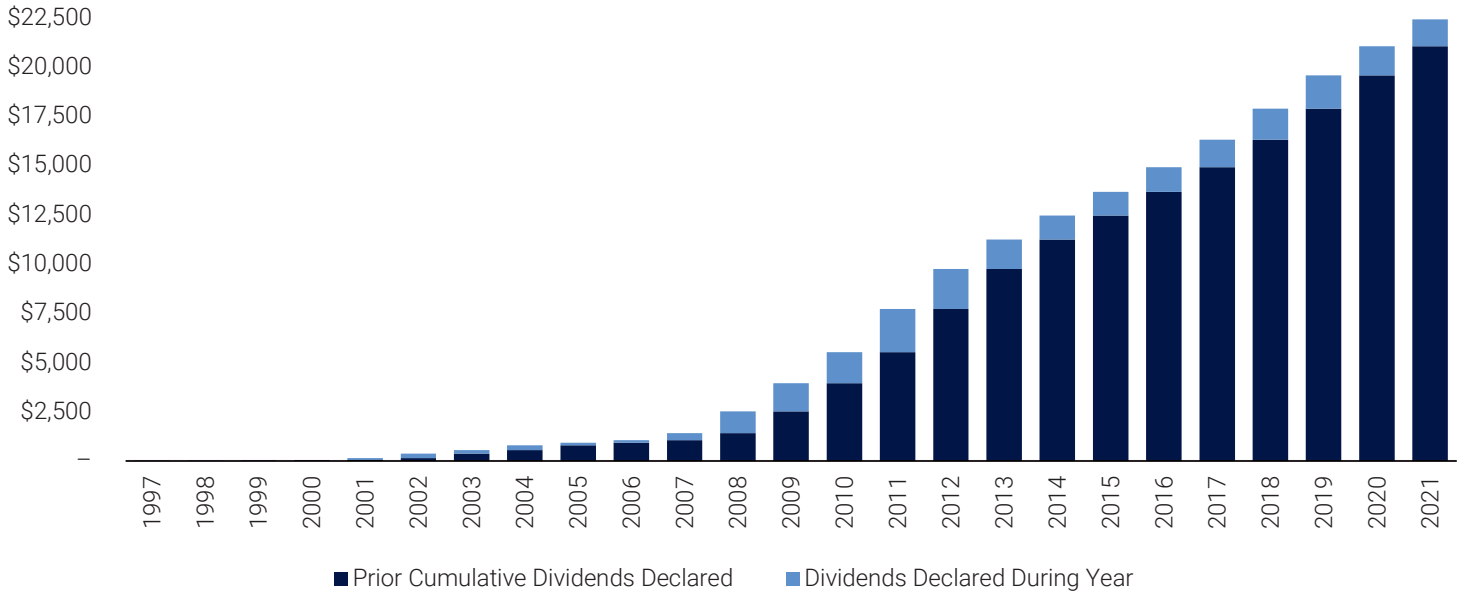
Note: Please refer to Glossary for defined terms and "Power of Annaly" in Endnotes section for footnoted information.

Proven Results

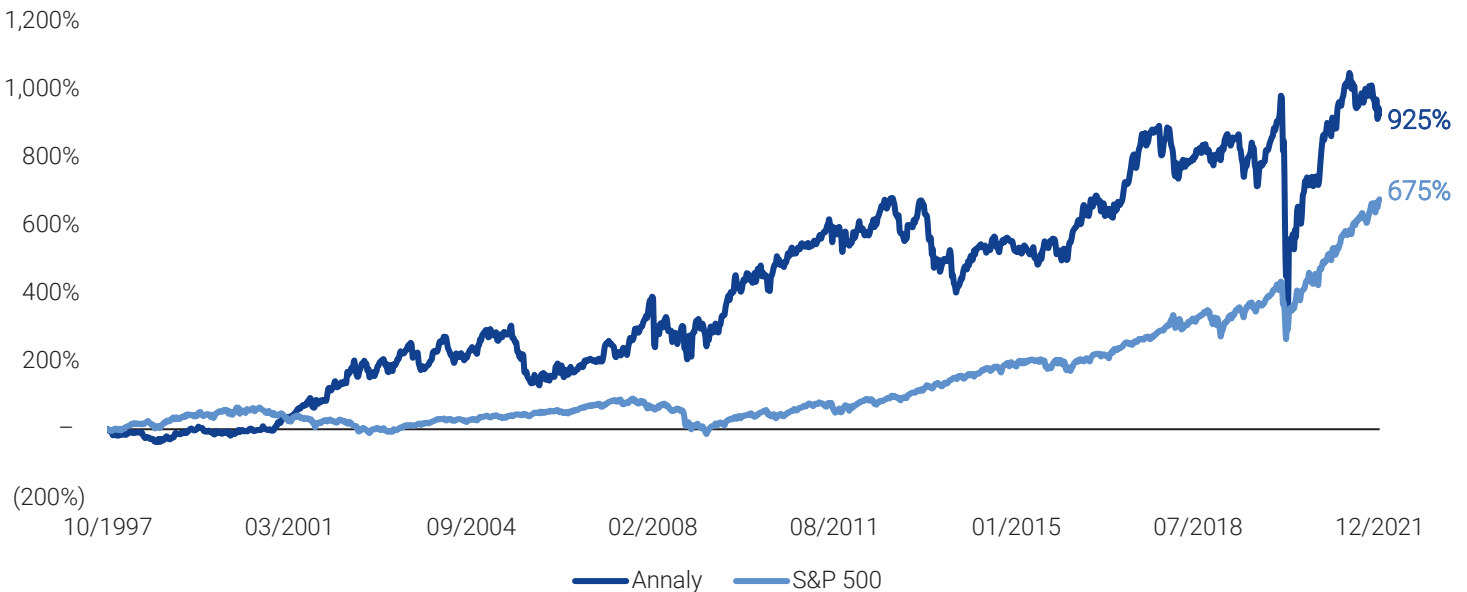
Proven over 20+ years to be a stable source of yield for shareholders

Since inception, Annaly has delivered \$22bn+ in dividends to shareholders⁽¹⁾

(\$ in millions)



Annaly has delivered total returns of 925% since IPO, outperforming the broader market by ~1.4x



Note: Please refer to Glossary for defined terms and "Proven Results" in Endnotes section for footnoted information.

People First

Our greatest asset is our employees – highly skilled individuals with varying sets of professional experience across sectors, credit cycles and functions – who come to work every day committed to the long-term success and growth of our Company

Our People

The deep and varied expertise of our talented professionals enhances our ability to drive value for our shareholders

Employee Gender and Racial Diversity



34%

of employees identify as women



32%

of employees identify as racially / ethnically diverse



74%

of new hires in 2021 identify as women or racially / ethnically diverse



48%

of managers identify as women or racially / ethnically diverse

Diversity in Leadership



64%

of Directors identify as women or racially / ethnically diverse
7 out of 11



100%

of Board Committee Chairs identify as women
5 out of 5



20%

of Executive Officers identify as women
1 out of 5



50%

of Operating Committee members identify as women or racially / ethnically diverse
7 out of 14

Note: Please refer to Glossary for defined terms and “People First” in Endnotes section for footnoted information.

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Message from Our CEO

Dear Fellow Shareholders,

As I reflect on the last year, 2021 was transformational for Annaly with several key milestones, including the buildout of our Mortgage Servicing Rights (“MSR”) platform and the expansion of our Residential Credit business. These achievements, coupled with the successful sale of our Commercial Real Estate business, have enhanced Annaly’s ability to invest across all aspects of the housing finance market, fortified the durability of our returns and strengthened our position as the industry-leading mortgage REIT. While we have experienced challenging market conditions in recent months, we are excited about the combination of our Agency, MSR and Residential Credit investments within our portfolio and believe Annaly is well-positioned to be a leading source of private capital in the U.S. housing market for years to come.

Portfolio Performance & Strategy

2021 was a year of strong growth coupled with a sharp increase in inflation as the U.S. economy recovered from the pandemic-related disruption. In this environment, mortgages underperformed as the Federal Reserve (“Fed”) began to detail plans to unwind its accommodative monetary policy including halting mortgage purchases and ultimately reducing its balance sheet. In anticipation of wider spreads and higher interest rates, we thoughtfully reduced our Agency portfolio throughout the year to

decrease leverage, increase liquidity and shift capital towards our credit businesses. While returns were impacted by swings in spreads and benchmark rates, our size, liquidity, strong risk culture and active portfolio management helped us to outperform our sensitivity models and maintain an attractive dividend.

At the time I became CEO in early 2020, we began to make preparations for strategic investments into new areas of housing finance. We see many synergies between our Agency and Residential Credit businesses and further sharpened our focus through the sale of our Commercial Real Estate business, which closed in the third quarter of 2021.⁽¹⁾ The \$2.3 billion transaction was a successful outcome for our shareholders that both unlocked the value of the platform and also allowed us to reallocate capital into our core residential mortgage finance expertise.

One area we have shifted capital towards is our MSR platform, which we expanded throughout 2021 through the hiring of key personnel, procurement of strategic partnerships and build-out of necessary operational infrastructure. MSR, which tends to perform well in a rising rate environment, is complementary to our Agency investments, offering attractive unlevered yields and providing a mechanism to hedge a portion of our mortgage basis risk. The business grew at a remarkable pace in its first year with Annaly ending 2021 as the fifth largest bulk buyer of MSR.⁽²⁾ This supported over \$500 million in asset

Note: Please refer to Glossary for defined terms and “Message from Our CEO” in Endnotes section for footnoted information.

generation to end the year with a \$645 million MSR portfolio.⁽³⁾ We have seen increased market activity in early 2022 given diminished originator profitability, which we expect to persist throughout the year and provide strong growth opportunities. Looking forward, we are excited about the combination of our MSR and Agency investments that we believe will enhance risk-adjusted returns and reduce our overall interest rate and spread volatility risk.

We have also increased our capital allocation to our Residential Credit Group, which posted a year of exceptional growth with assets nearly doubling. This performance was enabled by strong tailwinds in the U.S. housing market and new initiatives to support the development of our whole loan strategy, which serves to complement the Residential Credit Group's securitized products portfolio. We successfully launched a whole loan correspondent channel in April 2021, which expanded our sourcing capabilities through the addition of new partners and product offerings. Notably, the whole loan correspondent channel recently achieved over \$1 billion in expanded credit loan aggregation within its first year of operation. Loan volume was also supported by new bulk partnerships outside of our correspondent channel. The combination of these initiatives drove the group's record \$4.5 billion in whole loan purchases last year, which exceeded originations in 2019 and 2020 combined. With housing fundamentals

expected to stay healthy, residential credit should be a key driver of our overall portfolio growth in the year ahead as we build on our momentum.

Financing, Capital & Liquidity

Disciplined leverage and liquidity management has always been core to Annaly's DNA and we have augmented our defensive positioning over the last year given aforementioned market dynamics. We strategically decreased our economic leverage 0.5x in 2021 and 1.5x since the onset of the pandemic to 5.7x at year-end, our lowest year-end leverage since 2014. Our historically low leverage profile is further enhanced by our low capital structure leverage, with 88% of our equity in common stock, and minimal asset-level structural leverage, with highly liquid Agency MBS making up over 90% of our assets at year-end. We also maintained a sharp focus on liquidity, increasing unencumbered assets by \$0.6 billion throughout the year to \$9.3 billion.

Moreover, we continued to diversify our financing profile by expanding our securitization programs and increasing capacity with various credit facilities. Our Onslow Bay subsidiary remains an active issuer of securitizations, pricing 16 whole loan transactions totaling over \$6.3 billion since the beginning of 2021.⁽⁴⁾ Notably, Onslow Bay finished the year as the fourth largest non-bank issuer of prime jumbo and expanded prime MBS over the past two years.⁽⁵⁾ We also added capacity at our credit facilities and warehouse

lines including adding over \$500 million of capacity within our credit businesses. Meanwhile, financing costs reached a record low during the year with the average economic cost of interest-bearing liabilities declining 55 basis points throughout 2021 to end the year at 0.79%.⁽⁶⁾

Delivering on Our ESG & Human Capital Commitments

Our core values are central to our culture and we strive to integrate our environmental, social and governance (“ESG”) priorities into our overall strategy. We made significant progress on our ESG initiatives throughout 2021 and we are fully committed to generating a positive impact on the communities in which we live, work and operate.

We were proud to issue our second Corporate Responsibility Report, *Leading with Purpose*, which demonstrates Annaly’s focus on ESG endeavors and provides an update on our related goals and commitments. Some of the achievements highlighted in the report include expanding our Sustainability Accounting Standards Board (“SASB”) disclosures, offsetting 100% of our Scope 2 GHG Emissions and committing to evaluate disclosures under the Task Force on Climate-related Financial Disclosures (“TCFD”). Subsequent to the report and in line with our commitment to integrate ESG priorities into our broader strategy, we recently updated our corporate charters and guidelines to reflect integrated ESG oversight

across the Board and its Committees and also published supplemental climate-related risk disclosures on our corporate website.

Our talented and diverse workforce is essential to driving Annaly’s culture of innovation and success and we are acutely focused on supporting the development of all employees. In 2021, we successfully utilized a hybrid work approach that balanced the health and well-being of our employees with the benefits of in-office collaboration. This year, we are proud to have transitioned back into the office, while still providing flexibility for remote work, which we believe allows us to best cultivate our strong corporate culture. We have also made other enhancements to support our employees, including expanding our parental leave and fertility benefits. Further, we remain focused on nurturing an inclusive workplace. In line with this, we have improved our diversity, equity and inclusion (“DE&I”) initiatives with the recent expansion to seven employee-sponsored affinity groups and have continued to host a series of training programs on allyship and cognitive biases, as well as other special DE&I-related events.

Best-in-class corporate governance also remains central to Annaly’s mission. One recent enhancement we have made to our shareholder rights framework was amending our bylaws to lower the threshold for stockholders to call a special meeting. This is the latest in a series of enhancements we have made incorporating

shareholder feedback and governance best practices. The benefit of our corporate governance enhancements to our shareholders is best exhibited by our management internalization in 2020, which along with last year's commercial real estate sale, drove a 20 basis point decrease in operating expenses to 1.35% at year-end 2021.⁽⁷⁾ Over the last two years, we have lowered our operating expense ratio by 42 basis points following our internalization.

Outlook & Conclusion

Looking ahead, we expect market conditions to remain volatile in 2022 as the Fed tightens financial policy and reduces its Agency MBS footprint. We are prepared for a wider spread and higher interest rate environment with historically low leverage, substantial liquidity, a nearly fully hedged portfolio and well-diversified capital allocation. While wider Agency MBS spreads present near-term challenges, they also should present an improved Agency investment environment. With ample liquidity and low leverage, we are well-positioned to take a more offensive posture when the opportunity arrives. In line with our defensive positioning, we will be patient given uncertainty around the market and the Fed, but we stand ready to add fundamentally desirable assets should mortgage spreads widen and returns become more attractive.

At Annaly, our number one priority is creating value for our shareholders. Ultimately, our investment,

financing and liquidity, capital markets and ESG initiatives are all focused on generating a compelling return for our investors. On behalf of the entire Board and Executive Leadership team, we are grateful for your continued support.

Sincerely,



David Finkelstein

Chief Executive Officer & President



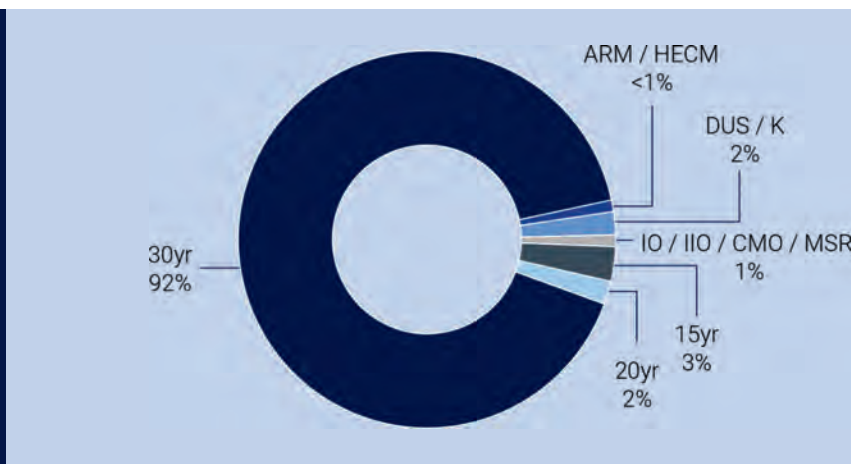
David L. Finkelstein is Chief Executive Officer and President of Annaly. Mr. Finkelstein was elected to serve as a director of Annaly in March 2020 and previously served as Chief Investment Officer. Mr. Finkelstein has 25 years of experience in fixed income investments. Prior to joining Annaly in 2013, Mr. Finkelstein served for four years as an Officer in the Markets Group of the Federal Reserve Bank of New York where he was the primary strategist and policy advisor for the MBS Purchase Program. Prior to that, Mr. Finkelstein held senior Agency MBS trading positions at Salomon Smith Barney, Citigroup Inc. and Barclays PLC. Mr. Finkelstein is a member of the Treasury Market Practices Group sponsored by the Federal Reserve Bank of New York. Mr. Finkelstein received a B.A. in Business Administration from the University of Washington and a M.B.A. from the University of Chicago, Booth School of Business. Mr. Finkelstein also holds the Chartered Financial Analyst® designation.

ANNALY®

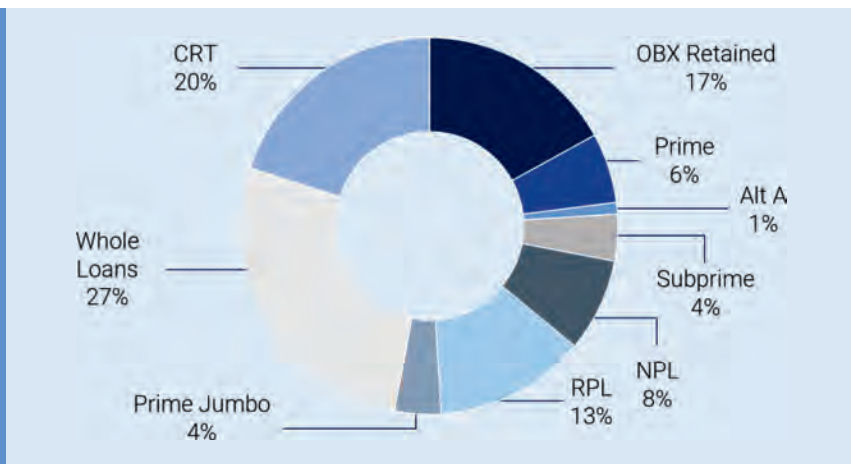
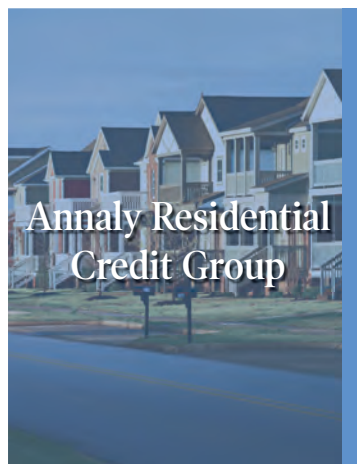
Annaly Investment Strategies

\$13 billion in permanent capital⁽¹⁾ invested in two fundamental pillars of the American economy: housing and business

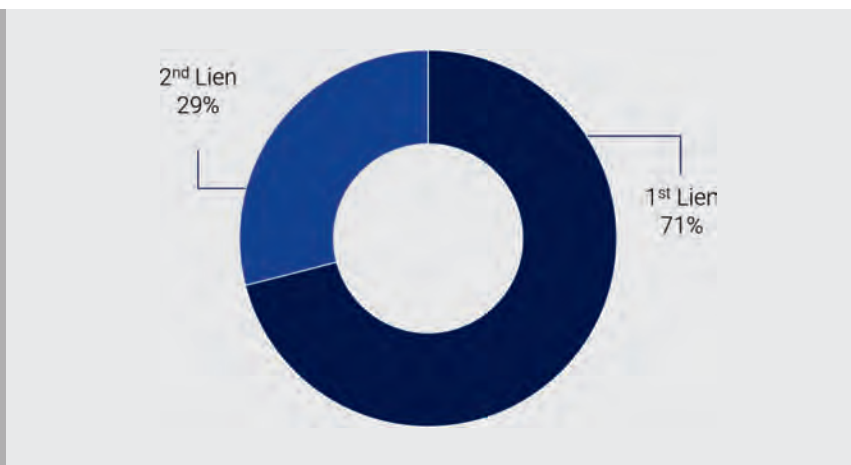
Portfolio Overview⁽²⁾



68%
of Dedicated
Capital⁽³⁾



24%
of Dedicated
Capital⁽³⁾



8%
of Dedicated
Capital⁽³⁾

Note: Please refer to Glossary for defined terms and "Annaly Investment Strategies" in Endnotes section for footnoted information.

Agency

The Annaly Agency Group invests in Agency MBS collateralized by residential mortgages which are guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae

Assets⁽¹⁾
\$81.5bn

Dedicated Capital⁽²⁾
\$8.8bn

2021



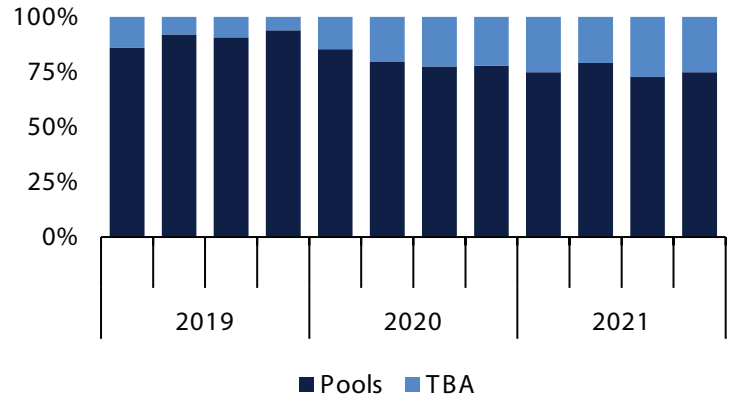
Strategic Approach

- Annaly's Agency Portfolio is made up of high quality and liquid securities, predominately specified pools, TBAs and derivatives
- Portfolio benefits from in-house proprietary analytics that identify emerging prepayment trends and a focus on durable cash flows
- Broad set of investment options within Agency market, including MSR and Agency CMBS, that provide complementary duration and return profiles to Agency MBS
- Access to deep and varied financing sources, including traditional wholesale repo and proprietary broker-dealer repo
- Seasoned team manages interest rate exposure inherent in Agency MBS through disciplined asset selection and an array of hedging products

Agency Portfolio Detail

Assets

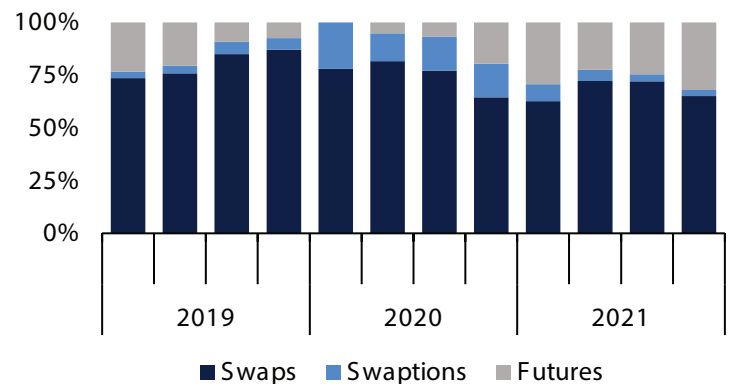
NLY Specified Pools and TBA Holdings, %



■ Pools ■ TBA

Hedges⁽³⁾

Agency Hedging Composition, %



■ Swaps ■ Swaptions ■ Futures

Note: Please refer to Glossary for defined terms and "Our Investment Strategies | Agency" in Endnotes section for footnoted information.

Agency | Mortgage Servicing Rights

Within Annaly's Agency Group, Annaly invests in **Mortgage Servicing Rights**, which provide the right to service residential loans in exchange for a portion of the interest payments made on the loans

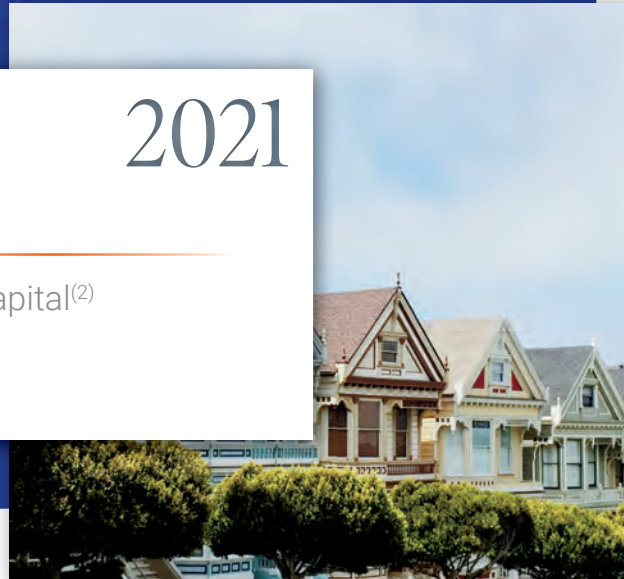
Assets⁽¹⁾

\$645mm

Dedicated Capital⁽²⁾

\$580mm

2021

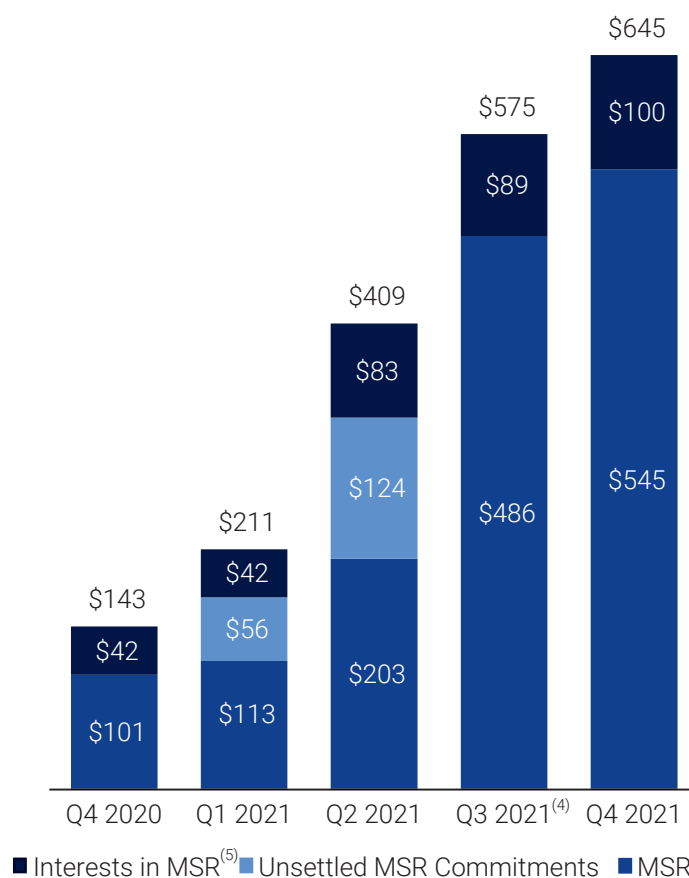


Strategic Approach

- MSR portfolio is complementary to Annaly's Agency MBS strategy
 - Offers attractive unlevered yields
 - Provides a mechanism to hedge mortgage basis risk from basis volatility and policy risk
- Annaly is well equipped to invest in MSR given strong Agency MBS trading history, prepayment modeling expertise, and prior experience owning one of the largest non-bank MSR co-issue platforms
- Complementary strategic partner to originators given certainty of capital and business strategy
- As of year-end 2021, MSR represented 5% of Annaly's dedicated equity capital⁽³⁾
- Portfolio consists of all Agency MSR (Fannie Mae and Freddie Mac)

Annaly MSR Holdings

(Market Value, \$mm)



Note: Please refer to Glossary for defined terms and "Our Investment Strategies | Mortgage Servicing Rights" in Endnotes section for footnoted information.

Residential Credit

The Annaly Residential Credit Group invests in Non-Agency residential mortgage assets within the securitized product and whole loan markets

Assets⁽¹⁾

\$4.6bn

Dedicated Capital

\$3.1bn

2021



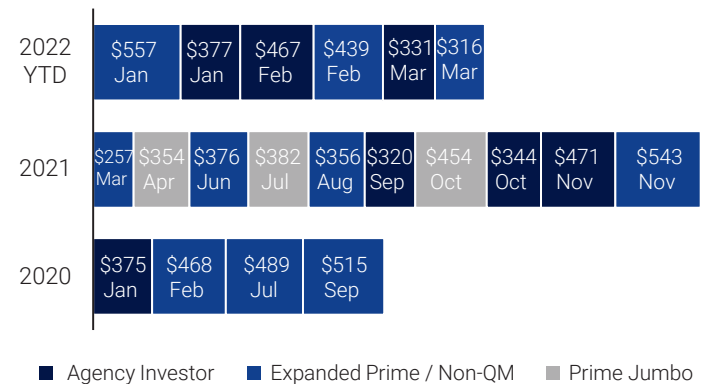
Strategic Approach

- Programmatic issuer of private label RMBS backed by new origination, residential whole loans
 - Twenty-eight deals comprising approximately \$11.4 billion of issuance priced since the beginning of 2018⁽²⁾
- Securitization program gives Annaly the ability to create proprietary investments tailored to desired credit preferences with control over diligence, origination partners, servicers and loss mitigation
- Nimble platform that can deploy capital across both the residential whole loan and the Non-Agency RMBS markets depending on relative value
- Expanded whole loan sourcing capabilities through introduction of the Onslow Bay correspondent channel
- Modest use of balance sheet leverage with most positions term financed through securitization

Annaly Securitization History

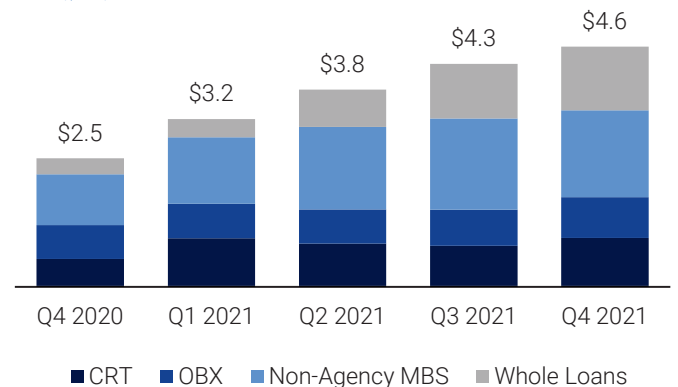
Recent Annaly Securitization History

(\$mm)



Sustained Portfolio Growth Throughout 2021

Assets (\$bn)



Note: Please refer to Glossary for defined terms and "Our Investment Strategies | Residential Credit " in Endnotes section for footnoted information.

Middle Market Lending

The Annaly Middle Market Lending Group provides financing to private equity backed middle market businesses, focusing primarily on senior debt within select industries

Assets⁽¹⁾

\$2.0bn

Dedicated Capital

\$1.1bn

2021

Strategic Approach

- Execute on a disciplined credit-focused investment strategy comprised predominantly of 1st and 2nd lien loans
- AMML's concentrated, non-discretionary and defensive industry-specific approach has differentiated our performance
 - AMML has no borrowers on non-accrual, in comparison to peers that utilize broader AUM gathering investment strategies
- Deal types include leveraged buyouts, acquisition financing, refinancings and dividend recapitalizations
- As of year-end 2021, the portfolio consisted of 76% acquisition financings, 15% refinancings and 8% dividend recapitalizations⁽⁵⁾

AMML by the Numbers⁽²⁾

Portfolio as of December 31, 2021

28

Private Equity Sponsors

46

Portfolio Borrowers

\$44mm

Average Investment Size⁽³⁾

0.8x

Leverage on Portfolio⁽⁴⁾

\$76mm

Median EBITDA at Underwriting

5.0% / 8.1%

Weighted Average First / Second Lien LIBOR Spread

Note: Please refer to Glossary for defined terms and "Our Investment Strategies | Middle Market Lending" in Endnotes section for footnoted information.

Financing, Capital & Liquidity

Annaly's deep and diverse financing sources provide the Company with unique competitive advantages. Throughout the year, Annaly continued to enhance its leverage and liquidity

Financing, Capital and Liquidity Highlights Since the Beginning of 2021

Decreased **economic leverage** a half a turn to **5.7x** from 6.2x year-over-year

Closed **sixteen** residential whole loan securitizations totaling **\$6.3 billion⁽¹⁾** since the start of 2021

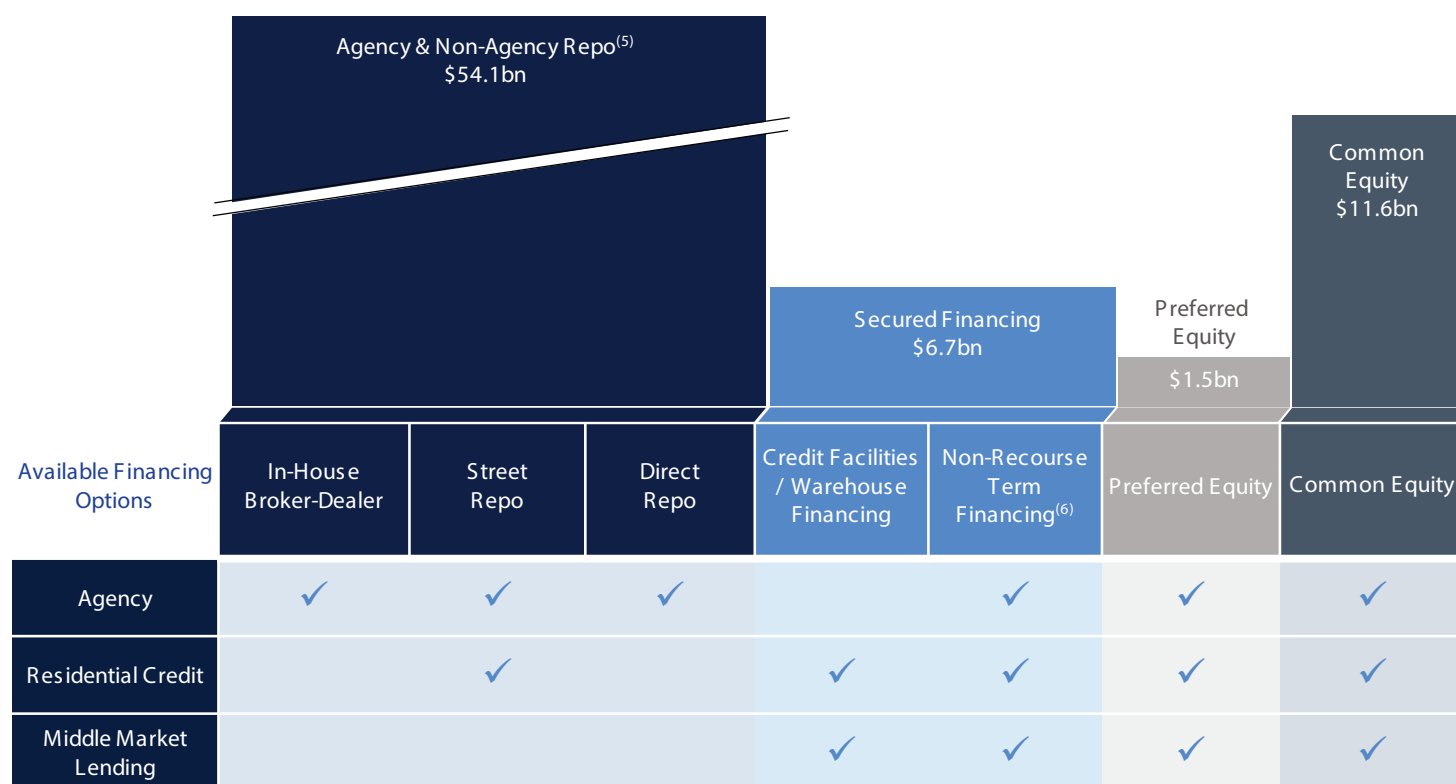
Raised **\$552 million** of accretive common equity through the Company's **at-the-market sales program** in 2021⁽²⁾

Record-low **financing costs** with average economic cost of interest bearing liabilities **declining 55bps to 0.79%** over the course of the year

Added **\$530 million** of credit facility capacity within Annaly's credit businesses

\$9.3 billion of unencumbered assets, including cash and unencumbered Agency MBS of **\$5.2 billion**

Total Capitalization (as of December 31, 2021)



Note: Please refer to Glossary for defined terms and "Financing, Capital & Liquidity" in Endnotes section for footnoted information.

2021 Strategic Milestones

Annaly successfully executed on its strategic priorities throughout 2021, including driving value for shareholders at the corporate level

Key Milestones Within Annaly's Investment Strategies

Agency / MSR

- Efficiently built out **MSR Platform**, including key hires and strategic partnerships
 - Grew MSR portfolio by over **\$500 million** in 2021 to **\$645 million**⁽¹⁾
 - Fifth largest buyer** of bulk MSR in 2021⁽²⁾
- Proactively managed **Agency MBS** portfolio, successfully balancing exposure between **TBAs** and **Specified Pools**

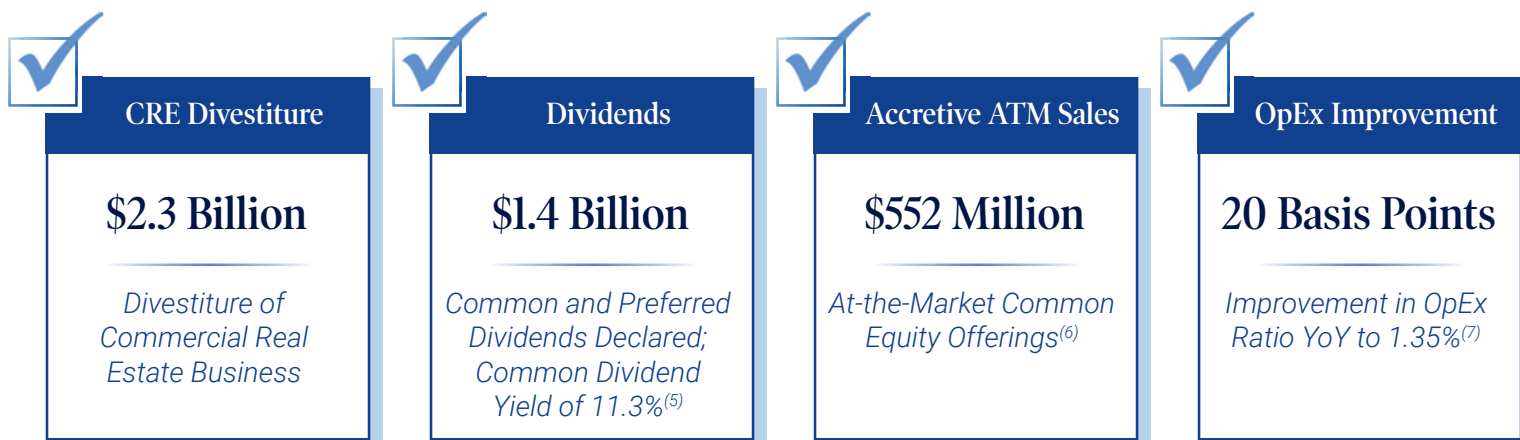
Residential Credit

- Purchased **\$4.5 billion** in whole loans throughout 2021
- Launched Onslow Bay **whole loan correspondent channel** in April 2021
- Since the start of 2021, completed **16 whole loan securitizations** for **\$6.3 billion**⁽³⁾
- Fourth largest non-bank issuer** of Prime Jumbo & Expanded Credit MBS from 2020 to 2021⁽⁴⁾

Middle Market Lending

- Completed over **\$1.5 billion** in gross originations throughout 2021
- AMML holds **lead arranger / agent** role in approximately **45%** of current portfolio
- Closed **inaugural private closed-end fund**, raising **\$371 million** of third-party capital

Continued Focus on Driving Shareholder Value at Corporate Level

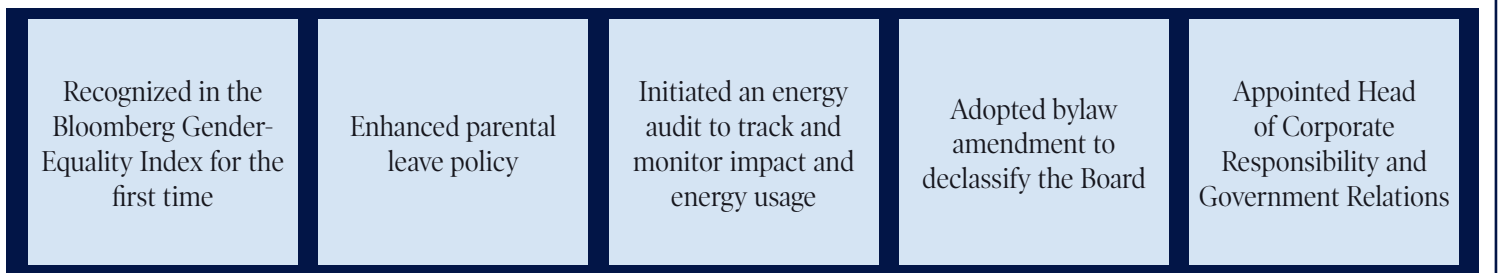


Note: Please refer to Glossary for defined terms and "2021 Strategic Milestones" in Endnotes section for footnoted information.

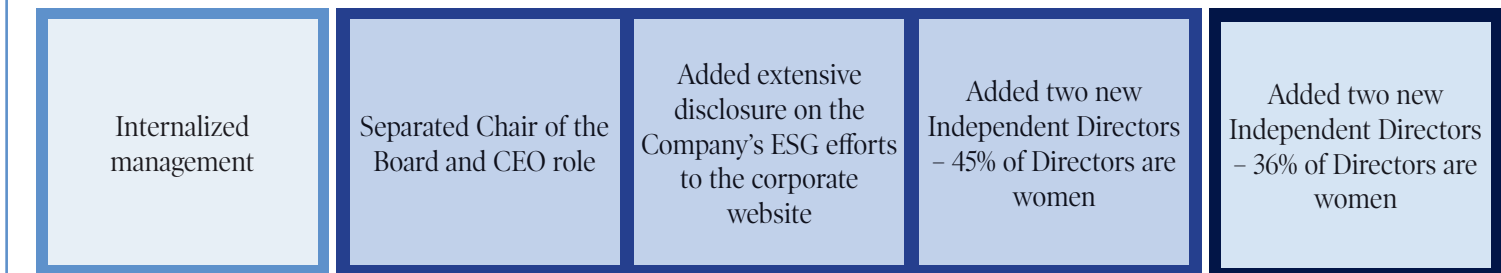
Corporate Responsibility & Governance

Annaly has made important compensation, governance and responsibility-related enhancements to promote shareholder value and support transparency in recent years

2018



2020



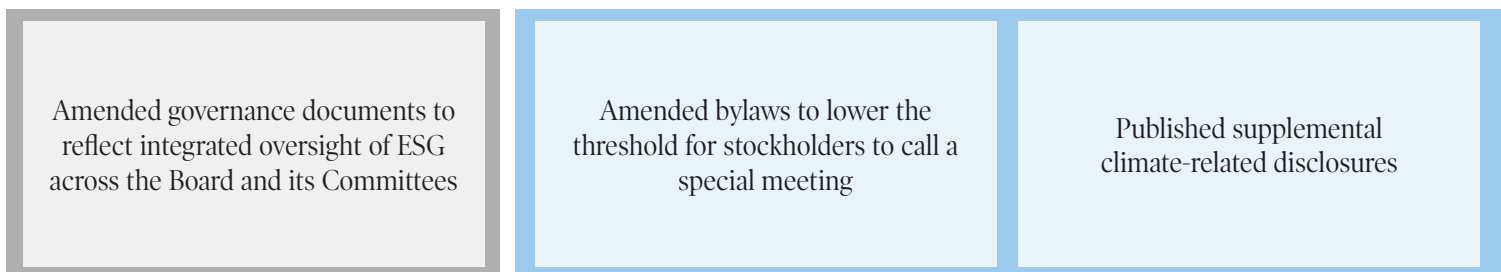
2019



2021



2022



Delivering on Our Commitments

Annaly continued to make progress on its ESG commitments throughout 2021 and into 2022



Environmental

- ✓ Published supplemental climate-related disclosures outlining climate-related risks and opportunities across our business in the short-, medium- and long-term horizons
- ✓ Committed to further assess climate change risks and opportunities through the Task Force on Climate-related Financial Disclosures (“TCFD”)
- ✓ Continued to track, measure and disclose our total GHG emissions and energy consumption at our headquarters
- ✓ Purchased carbon credits to offset 100% of Scope 2 GHG emissions



Social

- ✓ Annaly became a signatory of the CEO Action for Diversity and Inclusion
- ✓ Expanded employee-sponsored affinity groups
- ✓ Published recent EEO-1 Reports and committed to ongoing disclosure of workforce diversity statistics
- ✓ Continued support for community organizations with a focus on housing, food security and workforce development



Governance

- ✓ Amended bylaws to lower the threshold for stockholders to call a special meeting from a majority of shares outstanding to 25%
- ✓ Amended governance documents to reflect integrated oversight of ESG across Board and its Committees
- ✓ Disclosed demographic composition of the Board on an individual basis for the first time
- ✓ Significantly enhanced compensation disclosures in 2021 proxy to reflect internalized structure

Awards & Recognitions



Bloomberg Gender-Equality Index

Annaly was acknowledged in 2022 for its fifth consecutive year as a member of the Bloomberg Gender-Equality Index



50/50 Women on Boards

Annaly is considered a company with a “Gender-Balanced Board” by 50/50 Women on Boards



FTSE4Good

FTSE4Good Index

In 2019, 2020 and 2021, Annaly was included in the FTSE4Good Index, an equity index measuring strong corporate ESG practices

CEO ACTION FOR DIVERSITY & INCLUSION

CEO Action for Diversity & Inclusion

Annaly is proud to have become a signatory of the CEO Action for Diversity & Inclusion in 2021



NACD DE&I Award Nominee

Annaly’s Board of Directors was selected as a finalist for the 2021 NACD Diversity, Equity, Inclusion Awards

Board Composition & Shareholder Engagement Efforts

We are committed to having a Board representing diverse backgrounds and a wide range of professional experiences that we believe benefits the long-term interest of our shareholders, whom we regularly engage with on corporate responsibility and governance matters

Board of Directors

11

Directors

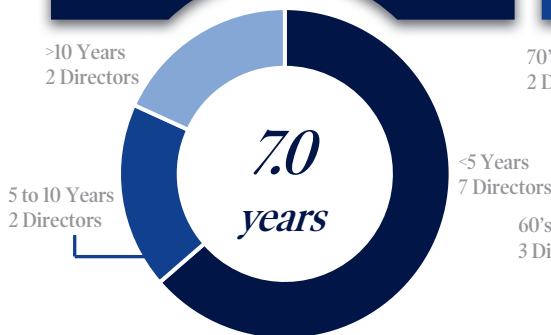
7

Directors Identify as Women or Racially / Ethnically Diverse

5

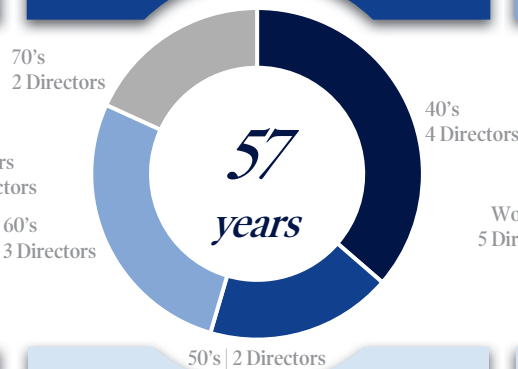
Standing Board Committees

Tenure



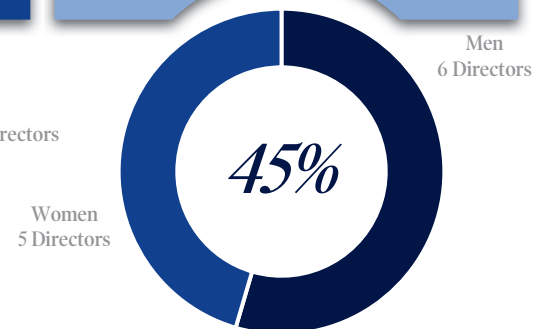
Represents the average tenure of Directors

Age



Represents the average age of Directors

Gender



Represents the percentage of female Directors

We take pride in our extensive outreach efforts and are committed to transparency, enhanced disclosure and continued engagement

2021–2022 Global Shareholder Engagement Efforts⁽¹⁾

Outreach included



of top 100 institutional investors

Outreach included approximately



of institutional ownership

Note: Please refer to Glossary for defined terms and "Board Composition & Shareholder Engagement Efforts" in Endnotes section for footnoted information.

Board of Directors

Annaly's highly qualified Board of Directors possess a broad array of complementary skills and experience

Annaly Board of Directors

Director	Principal Occupation	Committees
David L. Finkelstein	Chief Executive Officer & President Annaly Capital Management, Inc.	
Michael Haylon	Managing Director and Head of Conning North America Conning, Inc.	<ul style="list-style-type: none"> ▪ Independent Chair of the Board ▪ Audit ▪ Risk
Wellington J. Denahan	Former Executive Chairman and Co-Founder Annaly Capital Management, Inc.	<ul style="list-style-type: none"> ▪ Vice Chair of the Board ▪ Risk (Chair) ▪ Corporate Responsibility
Francine J. Bovich	Former Managing Director Morgan Stanley Investment Management	<ul style="list-style-type: none"> ▪ Nominating/Corporate Governance (Chair) ▪ Corporate Responsibility
Katie Beirne Fallon	Chief Global Impact Officer McDonald's Corporation	<ul style="list-style-type: none"> ▪ Corporate Responsibility (Chair) ▪ Nominating and Corporate Governance
Thomas Hamilton	Owner and Director Construction Forms, Inc.	<ul style="list-style-type: none"> ▪ Audit ▪ Management Development & Compensation ▪ Risk
Kathy Hopinkah Hannan	Former National Managing Partner, Global Lead Partner KPMG LLP	<ul style="list-style-type: none"> ▪ Audit (Chair) ▪ Management Development & Compensation ▪ Nominating/Corporate Governance
Eric A. Reeves	Managing Director, Head of Private Capital Investments Duchossois Capital Management	<ul style="list-style-type: none"> ▪ Corporate Responsibility ▪ Nominating/Corporate Governance
John H. Schaefer	Former President and Chief Operating Officer Morgan Stanley Global Wealth Management	<ul style="list-style-type: none"> ▪ Audit ▪ Management Development & Compensation ▪ Risk
Glenn A. Votek	Former Senior Advisor Annaly Capital Management, Inc.	<ul style="list-style-type: none"> ▪ Corporate Responsibility ▪ Risk
Vicki Williams	Chief Human Resources Officer NBCUniversal	<ul style="list-style-type: none"> ▪ Management Development & Compensation (Chair) ▪ Audit

Note: Please refer to Glossary for defined terms and "Board of Directors" in Endnotes section for footnoted information.

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

FORM 10-K

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

FOR THE FISCAL YEAR ENDED: December 31, 2021

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER: 1-13447

ANNALY[®]

ANNALY CAPITAL MANAGEMENT INC

(Exact Name of Registrant as Specified in its Charter)

Maryland

(State or other jurisdiction of incorporation or organization)

22-3479661

(IRS Employer Identification No.)

1211 Avenue of the Americas

New York, New York

(Address of principal executive offices)

10036

(Zip Code)

(212) 696-0100

(Registrant's telephone number, including area code)

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

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, par value \$0.01 per share	NLY	New York Stock Exchange
6.95% Series F Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock	NLY.F	New York Stock Exchange
6.50% Series G Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock	NLY.G	New York Stock Exchange
6.75% Series I Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock	NLY.I	New York Stock Exchange

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

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

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

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

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

At June 30, 2021, the aggregate market value of the voting common stock held by non-affiliates of the registrant was approximately \$12.8 billion, based on the closing sales price of the registrant’s common stock on such date as reported on the New York Stock Exchange.

The number of shares of the registrant’s common stock outstanding on January 31, 2022 was 1,460,366,871.

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, 2021. Portions of such proxy statement are incorporated by reference into Part III of this Form 10-K.

ANNALY CAPITAL MANAGEMENT, INC.
2021 FORM 10-K ANNUAL REPORT
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PART I

ITEM 1. BUSINESS

“Annaly,” “we,” “us,” or “our” refers to Annaly Capital Management, Inc. and our wholly-owned subsidiaries, except where it is made clear that the term means only the parent company.

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

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

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We are a leading diversified capital manager with investment strategies across mortgage finance and corporate middle market lending. Our principal business objective is to generate net income for distribution to our stockholders and optimize our returns through prudent management of our diversified investment strategies. We are an internally-managed Maryland corporation founded in 1997 that has elected to be taxed as a real estate investment trust (“REIT”). Our common stock is listed on the New York Stock Exchange under the symbol “NLY.”

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

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

Investment Groups

Our three investment groups are primarily comprised of the following:

Investment Groups	Description
Annaly Agency Group	Invests in Agency mortgage-backed securities (“MBS”) collateralized by residential mortgages which are guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae (the “Agencies”) and complementary investments within the Agency market, including mortgage servicing rights and Agency commercial mortgage-backed securities.
Annaly Residential Credit Group	Invests in non-Agency residential mortgage assets within securitized product and whole loan markets.
Annaly Middle Market Lending Group	Provides financing to private equity backed middle market businesses, focusing primarily on senior debt within select industries.

In March 2021, we entered into a definitive agreement to sell and exit our Commercial Real Estate (“CRE”) business to Slate. During the year ended December 31, 2021, the platform and the significant majority of the assets were transferred with remaining assets expected to be transferred by the end of the first quarter of 2022, subject to regulatory approvals. For additional information about this transaction, see the Note titled “Sale of Commercial Real Estate Business” in the Notes to the Consolidated Financial Statements included in Item 15. “Exhibits, Financial Statement Schedules.”

Operating Platform

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

Business and Investment Strategy*Shared Capital Model*

Our company is comprised of three investment groups, each of which has multiple investment options to capitalize on attractive relative returns and market opportunities. In aggregate, we maintain numerous investment options across our investment groups. Our shared capital model drives our capital allocation strategy allowing us to rotate our investments based on relative value while also managing risk.

Strategic Relationships

A key element of our strategy is to establish and grow strategic relationships with industry leading partners in order to develop and broaden access to quality originations flow as well as to leverage third party operations to efficiently manage operating costs, all in an effort to generate attractive risk adjusted returns for our shareholders. Additionally, we have attracted capital

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partners to our business, augmenting our public capital markets efforts, which has resulted in increased scale without sacrificing balance sheet liquidity. Certain of our strategic relationships also afford us the opportunity to support communities through socially responsible investing.

We have created multiple strategic and capital partnerships across our investment groups including the following:

- Annaly Residential Credit Group has established relationships with key mortgage loan originators and aggregators including well-known money center banks, allowing us to efficiently source proprietary originations suited to our risk parameters.
- We have partnered with Pingora Loan Servicing, a premier mortgage servicer for MSR assets and a wholly-owned subsidiary of Bayview Asset Management, through our joint venture with GIC Private Limited (“GIC”), a leading Sovereign Wealth Fund.
- We have also partnered with GIC through the creation of a joint venture with the purpose of investing in residential credit assets, including newly-originated residential loans and securities issued by our subsidiaries.
- We have partnered with Capital Impact Partners, a national community development financial institution, to create a social impact joint venture supporting projects in underserved communities across the country.

Our Portfolio and Capital Allocation Policy

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

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

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

Our portfolio composition and capital allocation at December 31, 2021 and 2020 were as follows:

Investment Group	December 31, 2021		December 31, 2020	
	Percentage of Portfolio	Capital Allocation ⁽¹⁾	Percentage of Portfolio	Capital Allocation ⁽¹⁾
Residential				
Annaly Agency Group ⁽²⁾⁽³⁾	92%	68%	93%	78%
Annaly Residential Credit Group ⁽³⁾	5%	24%	3%	7%
Commercial				
Annaly Commercial Real Estate Group ⁽⁴⁾	1%	—%	2%	5%
Annaly Middle Market Lending Group	2%	8%	2%	10%

⁽¹⁾ Capital allocation for each of the investment strategies is calculated as the difference between each of the investment strategy’s allocated assets. It represents the percentage of equity allocated to each category. Dedicated capital allocations as of December 31, 2021 assume capital related to held for sale assets will be redeployed with the Agency business. Dedicated capital allocations as of December 31, 2021 exclude commercial real estate assets.

⁽²⁾ Includes MSR and TBA purchase contracts.

⁽³⁾ Includes retained positions from assets transferred or pledged to securitization vehicles and participations issued.

⁽⁴⁾ During the year ended December 31, 2021, a significant majority of assets were transferred in connection with a definitive agreement to sell and exit our CRE business.

Risk Appetite

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

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

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Risk Parameter	Description
Portfolio Composition	We will maintain a portfolio comprised of target assets approved by our Board and in accordance with our capital allocation policy.
Leverage	We generally expect to maintain an economic leverage ratio no greater than 10:1 considerate of our overall capital allocation framework.
Liquidity Risk	We will seek to maintain an unencumbered asset portfolio sufficient to meet our liquidity needs under adverse market conditions.
Interest Rate Risk	We will seek to manage interest rate risk to protect the portfolio from adverse rate movements utilizing derivative instruments targeting both income and capital preservation.
Credit Risk	We will seek to manage credit risk by making investments which conform within our specific investment policy parameters and optimize risk-adjusted returns.
Capital Preservation	We will seek to protect our capital base through disciplined risk management practices.
Operational	We will seek to limit impacts to our business through disciplined operational risk management practices addressing areas including but not limited to, management of key third party relationships (i.e. originators, sub-servicers), human capital management, cybersecurity and technology related matters, business continuity and financial
Compliance, Regulatory and Legal	We will seek to comply with regulatory requirements needed to maintain our REIT status and our exemption from registration under the Investment Company Act and the licenses and approvals of our regulated and licensed subsidiaries.

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

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

Target Assets

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

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

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

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

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

Capital Structure and Financing

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

We finance our Agency mortgage-backed securities and residential credit investments primarily with repurchase agreements. We seek to diversify our exposure and limit concentrations by entering into repurchase agreements with multiple counterparties. We enter into repurchase agreements with broker-dealers, commercial banks and other lenders that typically offer this type of financing. We enter into collateralized borrowings with financial institutions meeting internal credit standards and we monitor the financial condition of these institutions on a regular basis. At December 31, 2021, we had \$54.8 billion of repurchase agreements outstanding.

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

To reduce our liquidity risk we maintain a laddered approach to our repurchase agreements. At December 31, 2021, the weighted average days to maturity was 52 days.

We utilize leverage to enhance the risk-adjusted returns generated for our stockholders. We generally expect to maintain an economic leverage ratio of no greater than 10:1 considerate of our overall capital allocation framework. This ratio varies from time to time based upon various factors, including our management’s opinion of the level of risk of our assets and liabilities, our mix of assets, our liquidity position, our level of unused borrowing capacity, the availability of credit, over-collateralization levels required by lenders when we pledge assets to secure borrowings and, lastly, our assessment of domestic and international market conditions. Since the financial crisis beginning in 2007, we have maintained an economic leverage ratio below 8:1, and since the pandemic began an economic leverage ratio below 7:1. For purposes of calculating this ratio, our economic leverage ratio is equal to the sum of Recourse Debt, cost basis of TBA and CMBX derivatives outstanding, and net forward purchases (sales) of investments divided by total equity.

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Our target economic leverage ratio is determined under our capital management policy. Should our actual economic leverage ratio increase above the target level, we will consider appropriate measures. Our actions may include asset sales, changes in asset mix, reductions in asset purchases or originations, issuance of capital or other capital enhancing or risk reduction strategies.

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

	December 31, 2021	December 31, 2020
GAAP leverage ratio	4.7:1	5.1:1
Economic leverage ratio	5.7:1	6.2:1
GAAP capital ratio	17.2%	15.9%
Economic capital ratio	14.4%	13.6%

Operating Platform

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

Technology applications also support our control functions including risk, compliance, and middle- and back-offices. We have added breadth to our operating platform to accommodate diverse asset classes and drive automation-based efficiencies. Our business operations include a centralized collateral management function that permits in-house settlement and self-clearing, thereby creating greater control and management of our collateral. Through technology, we have also incorporated exception based processing, critical data assurance and paperless workflows. Our infrastructure investment has driven operating efficiencies while expanding the platform. Routine disaster recovery and penetration testing enhances our systems resiliency, security and recovery of critical systems throughout the computing estate, and positioned us for a smooth transition to the hybrid work environment in which we currently operate due to Coronavirus Disease 2019 (“COVID-19”).

Risk Management

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

Information about our Executive Officers

The following table sets forth certain information as of February 17, 2022 concerning our executive officers:

Name	Age	Title
David L. Finkelstein	49	Chief Executive Officer and President
Serena Wolfe	42	Chief Financial Officer
Steven F. Campbell	49	Chief Operating Officer
Ilker Ertas	51	Chief Investment Officer
Anthony C. Green	47	Chief Corporate Officer, Chief Legal Officer and Secretary

David L. Finkelstein has served as the Chief Executive Officer and President of Annaly since March 2020. Mr. Finkelstein previously served as Annaly’s Chief Investment Officer from November 2016 until December 2021. Prior to that, Mr. Finkelstein served as Annaly’s Chief Investment Officer, Agency and RMBS beginning in February 2015 and as Annaly’s

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Head of Agency Trading beginning in August 2013. Prior to joining Annaly in 2013, Mr. Finkelstein served for four years as an Officer in the Markets Group of the Federal Reserve Bank of New York where he was the primary strategist and policy advisor for the MBS purchase program. Mr. Finkelstein has over 20 years of experience in fixed income investments. Prior to the Federal Reserve Bank of New York, Mr. Finkelstein held Agency MBS trading positions at Salomon Smith Barney, Citigroup Inc. and Barclays PLC. Mr. Finkelstein is a member of the Treasury Market Practices Group sponsored by the Federal Reserve Bank of New York. Mr. Finkelstein received his B.A. in Business Administration from the University of Washington and his M.B.A. from the University of Chicago, Booth School of Business. Mr. Finkelstein also holds the Chartered Financial Analyst® designation.

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

Steven F. Campbell has served as Chief Operating Officer of Annaly since June 2020. Prior to this position, Mr. Campbell served in a number of other senior roles at Annaly, including as Head of Business Operations from September 2019 to June 2020, Head of Credit Operations and Enterprise Risk from February 2018 to September 2019, Chief Operating Officer of Annaly Commercial Real Estate Group from December 2016 to February 2018 and Head of Credit Strategy from April 2015 to February 2018. Mr. Campbell has over 20 years of experience in financial services. Prior to joining Annaly in 2015, Mr. Campbell held various roles over six years at Fortress Investment Group LLC, including serving as a Managing Director in the Credit Funds business. Prior to that, Mr. Campbell held positions at General Electric Capital Corporation and D.B. Zwirn & Co, L.P. with a focus on credit and debt restructuring. Mr. Campbell received a B.B.A. from the University of Notre Dame and a M.B.A. from the University of Chicago, Booth School of Business.

Ilker Ertas has served as Chief Investment Officer of Annaly since December 2021. Mr. Ertas previously served as Annaly’s Head of Securitized Products from February 2019 until December 2021. Prior to that position, Mr. Ertas served in a number of other senior roles at Annaly, including as Head of RMBS Portfolios from February 2018 to February 2019, Head of Trading from February 2017 to February 2018, Head of Asset Trading from October 2016 to February 2017 and Managing Director, Agency & Residential Credit from June 2015 to October 2016. Mr. Ertas has over 20 years of experience in U.S. fixed income markets. Prior to joining Annaly in 2015, Mr. Ertas was at Citigroup Inc., where he was most recently a Managing Director and Head of Mortgage Derivatives Trading. Mr. Ertas has also held mortgage trading positions at Barclays PLC and Lehman Brothers Holdings Inc. Mr. Ertas received a B.S. in Industrial Engineering from Bogazici University in Istanbul, Turkey and a M.B.A. from the Yale School of Management.

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

Effective February 14, 2022, Timothy P. Coffey stepped down from his position as Chief Credit Officer of Annaly and separated from employment with Annaly. Mr. Coffey’s departure is the result of a mutual decision and is unrelated to Annaly’s business performance or financial results.

Human Capital

Our human capital group oversees our human capital management to ensure that it is strategically integrated with our goals and business plans. We proactively review human capital management best practices on an ongoing basis to continuously enhance our employee experience. In addition, the Management Development and Compensation Committee of the Board provides independent oversight of our policies and strategies related to human capital management.

As of December 31, 2021, we had 171 employees.

Our People and Culture

We recognize that our employees are the driving force behind Annaly’s success, and we are committed to promoting their well-being, engagement, development and full potential. We are focused on fostering a diverse, inclusive and rewarding work

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environment for all our employees, with ongoing opportunities for career development and wellness support that seeks to facilitate the achievement of their professional goals.

Our culture is built on six core values: ownership, accountability, communication, collaboration, diversity and inclusion and humility. These values are embedded in our professional and personal conduct and are crucial to how we operate our business. All employees are responsible for upholding these values, which form the bedrock of our culture and are vital to the continued success of our company. Guided by these values, we are committed to attracting, developing and retaining the best talent, with diverse experiences, perspectives and backgrounds.

We utilize employee surveys, including an employee engagement survey, to create an open and honest feedback forum, actively involve our employees in the design and evolution of our culture, enhance our overall productivity and mitigate risk. Our leaders review survey feedback to increase employee engagement and drive positive changes throughout the firm. We remain committed to maintaining an open and honest feedback forum for our employees as we strive for high employment satisfaction levels.

COVID-19

In response to COVID-19, our employees largely worked remotely in the first half of 2021 and transitioned to a hybrid model in the second half of 2021 with employees returning to the office on a periodic basis following federal, state and local guidance. We have implemented a COVID-19 Policy on Vaccination, Testing, and Face Coverings, which complies with applicable federal, state and local legal requirements, to safeguard the health of our employees, their families, our clients, our business partners, and the community from the hazard of COVID-19. In addition to addressing physical health and safety concerns, we recognize that the pandemic has affected people’s daily emotional lives and mental health. As a result, we have increased our mental health offerings and hosted a multitude of virtual seminars to help keep our employees connected with one another and to equip them with tools to help alleviate some of the increased stress and burdens.

Diversity, Equity & Inclusion

The diversity of our employees brings a critical range of thought and experience throughout our company, cultivating innovation, fresh perspectives and vital new ideas. Diversity, equity and inclusion are essential tenets of our corporate culture. Our human capital management group, in coordination with our Head of Inclusion and Inclusion Support Committee of Executive Sponsors, is responsible for overseeing and continuing to improve our diversity, equity and inclusion initiatives.

We are committed to achieving diversity, including gender and racial/ethnic diversity, across all levels of our company. With 53% of total employees in 2021 identifying as either female or racially/ethnically diverse, we are driven by the belief that having a diverse group of employees supports our continued long-term growth. In 2017, we launched the Women’s Interactive Network (“WIN”), which provides targeted development and networking opportunities, knowledge exchanges, mentorship, coaching and volunteer efforts. In 2021, we expanded our employee affinity group network to include seven distinct affinity groups. In addition to WIN, these affinity groups include the Asian American and Pacific Islander Employee Network, the Black Employee Network, the Latin American Employee Network, Disabilities Within a Family, the Veteran’s Employee Network and Annaly Pride. Our diversity, equity and inclusion efforts also include firm-wide initiatives, like unconscious bias training and an allyship learning program, to establish foundational knowledge, language and understanding to support the strategic diversity, equity and inclusion efforts of the firm, organizing forums to discuss employees’ views and actively seeking out feedback from employee surveys.

Employee Development, Benefits and Wellness

We seek to invest in and promote talent to cultivate a high-performance culture and build on the capabilities and full potential of our employees. We invest in a wide range of benefits and wellness initiatives for our employees to support healthy lifestyles and choices.

Our employee compensation program includes base salary, annual incentive bonuses and stock-based awards. Employee compensation packages are designed to align employee and stockholder interests and to provide incentives to attract, retain and motivate talented employees. In addition, we offer employees benefits including health and insurance coverage, health savings and flexible spending accounts, telemedicine benefits, 401(k) plans, paid time off and family care resources. In 2021, we enhanced our parental and family care benefits to provide extended leave and fertility assistance. We also have a tuition reimbursement plan to cover all or part of the cost of education that furthers employee education in a field directly related to their specific job.

We offer a number of learning and development programs tailored to our employee needs and interests as well as our overall strategic business objectives. For example, we offer targeted professional development training for employees at various stages in their career. In 2021, we continued offering firm-wide culture sessions where we facilitate discussions to gain insights on our company’s culture enhancement priorities.

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ITEM 1. BUSINESS*Corporate and Employee Philanthropy and Volunteerism*

Our corporate giving has been focused on high-impact programs that seek to advance social issues we are committed to, including combating homelessness and advancing the professional development of women and underrepresented groups. In 2021, we continued to provide support to COVID-19 relief efforts in our New York City community. Annaly and our employees endeavor to meaningfully contribute to the communities where we live, work, and invest through Annaly’s corporate giving, employee volunteerism and our employee charity match program.

Regulatory Requirements

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

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

Arcola is a member of FINRA and is subject to regulations of the securities business that include but are not limited to trade practices, use and safekeeping of funds and securities, capital structure, recordkeeping and conduct of directors, officers and employees. As a self-clearing, registered broker dealer, Arcola is required to maintain minimum net capital by FINRA. Arcola consistently operates with capital in excess of its regulatory capital requirements as defined by SEC Rule 15c3-1.

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

We also have a subsidiary that operates as a licensed mortgage aggregator and master servicer, which compels it to follow individual state licensing laws and subjects it to supervision and examination by federal authorities, including the CFPB, the U.S. Department of Housing and Urban Development (“HUD”), the SEC as well as various state licensing, supervisory and administrative agencies. We and our subsidiaries must also comply with a large number of federal, state and local consumer protection laws including, among others, the Gramm-Leach-Bliley Act, the Fair Debt Collection Practices Act, Real Estate Settlement Procedures Act, the Truth in Lending Act, and the Fair Credit Reporting Act, as well as state foreclosure laws and federal and local bankruptcy rules. These laws and regulations, which are frequently amended and adjusted, have, in recent years, led to an increase in both the scope of the requirements and the intensity of the supervision to which we are subject.

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

Competition

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

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Corporate Governance

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

- Our Board is composed of a majority of independent directors, and our Audit, Management Development and Compensation, and Nominating/Corporate Governance Committees are composed exclusively of independent directors.
- We have separated the roles of Chair of the Board and Chief Executive Officer, and appointed an independent Chair of the Board.
- All directors are elected on an annual basis.
- We have adopted an enhanced director refreshment policy, which provides that an independent director may not stand for re-election at the next annual meeting of stockholders taking place at the end of his or her term following the earlier of his or her: (i) 15th anniversary of service on our Board or (ii) 73rd birthday.
- We have adopted a Code of Business Conduct and Ethics, which sets forth the basic principles and guidelines for resolving various legal and ethical questions that may arise in the workplace and in the conduct of our business. This code is applicable to our directors, officers and employees.
- We have adopted Corporate Governance Guidelines which, in conjunction with the charters of our Board committees, provide the framework for the governance of our company.
- We have procedures by which any of our employees, officers or directors may raise concerns confidentially about our company’s conduct, accounting, internal controls or auditing matters with the Chair of the Board, the independent directors, or the Chair of the Audit Committee or through our whistleblower phone hotline or e-mail inbox.
- We have an Insider Trading Policy that prohibits our directors, officers and employees, as well as those of our subsidiaries from buying or selling our securities on the basis of material nonpublic information and prohibits communicating material nonpublic information about our company to others. Our Insider Trading Policy prohibits our directors, officers and employees, from (1) holding our stock in a margin account as eligible collateral, or otherwise pledging our stock as collateral for a loan, or (2) engaging in any hedging transactions with respect to our equity securities held by them.
- Our executive officers are subject to a robust clawback policy, which includes triggers for financial restatements and misconduct.
- Our executive officers are subject to stock ownership guidelines and holding restrictions.
- In February 2022, we amended our bylaws to allow stockholders holding 25% of our common stock to call a special meeting, reducing the previous majority threshold.

Distributions

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

Available Information

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

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

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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.

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Item 1A. Risk Factors**ITEM 1A. RISK FACTORS**

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

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Item 1A. Risk Factors**Summary of Risk Factors****Risks Related to COVID-19**

- COVID-19 has affected the U.S. economy and our business.
- We cannot predict the effect of the government response to COVID-19 on us.

Risks Related to Our Liquidity and Funding

- Our strategy involves the use of leverage, which increases the risk that we may incur substantial losses.
- Our use of leverage may result in margin calls and defaults and force us to sell assets under adverse market conditions.
- We may exceed our target leverage ratios.
- We may not be able to achieve our optimal leverage.
- Failure to procure or renew funding on favorable terms, or at all, would adversely affect our results and financial condition.
- Failure to effectively manage our liquidity would adversely affect our results and financial condition.
- Volatile market conditions for our assets can result in contraction in liquidity for those assets and the related financing.
- 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.
- Differences in timing of interest rate adjustments on our interest earning assets and our borrowings may adversely affect our profitability.
- The discontinuation of LIBOR may affect our results.
- It may be uneconomical to "roll" our TBA dollar roll transactions or we may be unable to meet margin calls on our TBA contracts.
- Our use of derivatives may expose us to counterparty and liquidity risks.
- Securitizations expose us to additional risks.
- Our use of non-recourse securitizations may expose us to risks which could result in losses to us.
- Counterparties may require us to enter into covenants that restrict our investment strategy.
- We may be unable to profitably execute or participate in future securitization transactions.

Risks of Ownership of Our Common Stock

- Our charter does not permit ownership of over 9.8% of our common stock or preferred stock.
- Provisions contained in Maryland law may have anti-takeover effects, potentially preventing investors from receiving a "control premium" for their shares.
- We have not established a minimum dividend payment level and cannot assure stockholders of our ability to pay dividends in the future.
- Our GAAP results may not be an accurate indicator of future taxable income and dividend distributions.

Compliance, Regulatory & Legal Risks

- Accounting rules related to certain of our transactions are highly complex and involve significant judgment and assumptions. Our application of GAAP may produce financial results that fluctuate from one period to another.
- New laws may be passed affecting the relationship between Fannie Mae, Freddie Mac and the federal government.
- We may be subject to liability for potential violations of truth-in-lending or other similar consumer protection laws and regulations.
- We may not be able to maintain compliance with laws and regulations applicable to our Residential Credit and MSR businesses.
- 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 risks and liabilities in connection with sponsoring, investing in and managing new funds and other investment accounts, including potential regulatory risks.
- Loss of our Investment Company Act exemption from registration would adversely affect us.

Risks Related to Our Taxation as a REIT

- Our failure to maintain our qualification as a REIT would have adverse tax consequences.
- Our distribution requirements could adversely affect our ability to execute our business plan.
- Distributions to tax-exempt investors may be classified as unrelated business taxable income.
- We may choose to pay dividends in our own stock.
- Our TRSs cannot constitute more than 20% of our total assets.
- TRSs are subject to tax at the regular corporate rates, are not required to distribute dividends, and the amount of dividends a TRS can pay to its parent REIT may be limited by REIT gross income tests.
- 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.
- Even if we remain qualified as a REIT, we may face other tax liabilities that reduce our cash flow.
- Complying with REIT requirements may cause us to forgo otherwise attractive opportunities and may force us to liquidate otherwise attractive investments.
- Liquidation of assets may jeopardize our REIT qualification or create additional tax liability for us.
- The failure of assets subject to repurchase agreements to qualify as real estate assets could adversely affect our ability to remain qualified as a REIT.
- Complying with REIT requirements may limit our ability to hedge effectively and may cause us to incur tax liabilities.
- The tax on prohibited transactions limits our ability to engage in certain transactions.

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- Certain financing activities may subject us to U.S. federal income tax and could have negative tax consequences for our stockholders.
- The lease of qualified healthcare properties to a TRS is subject to special requirements.
- Uncertainty exists with respect to the treatment of our TBAs for purposes of the REIT asset and income tests.
- Dividends payable by REITs generally receive different tax treatment than dividend income from regular corporations.
- 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.

Counterparty Risks

- The soundness of our counterparties and other financial institutions could adversely affect us.

Investment and Market Related Risks

- We may experience declines in the market value of our assets.
- Investments in MSR may expose us to additional risks.
- Actions by the Federal Reserve may affect the price and returns of our assets.
- We invest in securities that are subject to mortgage credit risk.
- A prolonged economic slowdown or declining real estate values could impair the assets we may own.
- Geographic concentration exposes investors to greater risk of default and loss.
- Our assets may become non-performing or sub-performing assets in the future.
- We may be required to repurchase residential mortgage loans or indemnify investors if we breach representations and warranties.
- Our and our third party service providers' and servicers' due diligence of potential assets may not reveal all of the weaknesses in such assets.
- When we foreclose on an asset, we may come to own the property securing the loan.
- Our investments in corporate loans and debt securities for middle market companies carry risks.
- Subordinated tranches of non-Agency mortgage-backed securities are subordinate in right of payment to more senior securities.
- An increase in interest rates may adversely affect the market value of our interest earning assets and, therefore, also our book value.
- Our hedging strategies may be costly, and may not hedge our risks as intended.
- We are subject to risks of loss from weather conditions, man-made or natural disasters and climate change.

Operational Risks

- Inaccurate models or the data used by models may expose us to risk.
- We are highly dependent on information systems.
- We depend on third-party service providers, including mortgage loan servicers and sub-servicers, for a variety of services related to our business.
- Our investments in residential whole loans subject us to servicing-related risks.
- An increase or decrease in prepayment rates may adversely affect our profitability.
- We are subject to reinvestment risk.
- Competition may affect ability and pricing of our target assets.
- We may enter into new lines of business, acquire other companies or engage in other strategic initiatives.
- Some of our investments, including those related to non-prime loans, involve credit risk.
- We face possible increased instances of business interruption associated with the effects of climate change and severe weather.
- If we are unable to attract, motivate and retain qualified talent, including our key personnel, it could materially and adversely affect us.

Other Risks

- The market price and trading volume of our shares of common stock may be volatile.
- We may change our policies without stockholder approval.

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Item 1A. Risk Factors**Risks Related to COVID-19**

COVID-19 has affected the U.S. economy and our business.

General

COVID-19 has caused and is causing significant disruptions to the U.S. and global economies and has contributed to volatility and negative pressure in financial markets. COVID-19 and the related social distancing measures have had a broad negative impact on the U.S. and global economies as many businesses, particularly smaller ones within the service sector, have been forced to close, furlough and/or lay off employees. The pace, timing and strength of any recovery are still unknown and difficult to predict and, in general, COVID-19 continues to cause a great deal of uncertainty in the U.S.

Throughout the course of the COVID-19 pandemic, the U.S. federal government, as well as many state and local governments, have adopted a number of emergency measures and recommendations, including imposing travel bans, “shelter in place” restrictions, curfews, vaccine mandates, cancelling events, banning large gatherings, closing non-essential businesses, and generally promoting social distancing (including in the workplace, which has resulted in a significant increase in employees working remotely). Across the country, moratoriums were in place in certain states to stop evictions and foreclosures in an effort to lessen the financial burden created by the COVID-19 outbreak and various states have promulgated guidance to regulated servicers requiring them to formulate policies to assist mortgagors in need as a result of the COVID-19 pandemic. A number of states have enacted laws which impose significant limits on the default remedies of lenders secured by real property. While some states have relaxed certain of these measures, substantial restrictions on economic activity remain in place or may be put in place. Although it cannot be predicted, additional policy action at the federal, state and local level is possible in the future. The COVID-19 pandemic (and any future COVID-19 outbreaks) and resulting emergency measures have led (and may continue to lead) to significant disruptions in the global supply chain, global capital markets, the economy of the United States and the economies of other nations. Concern about the potential effects of the COVID-19 pandemic and the effectiveness of measures being put in place by governmental bodies and reserve banks at various levels as well as by private enterprises to contain or mitigate its spread has adversely affected economic conditions and capital markets globally, and have led to significant volatility in global financial markets. There can be no assurance that the vaccination efforts, containment measures or other measures implemented from time to time will be successful and what effect those measures will have on the economy. Disruption and volatility in the credit markets and the reduction of economic activity in severely affected sectors may occur in the United States and/or globally.

Beginning in the first quarter of 2020, particularly in March, COVID-19 began to adversely affect the mortgage REIT industry generally. In addition to negative general economic conditions, the impact of COVID-19 caused severe volatility across asset classes, including mortgage-related assets. In order to increase liquidity, fixed income investors were forced to sell U.S. Treasuries and Agency MBS, leading to an excess supply of these assets in need of redistribution. Pressure in financing markets and the need to meet margin obligations (particularly in the mortgage REIT industry in connection with repurchase financing obligations) created additional selling pressure in U.S. Treasury and Agency MBS markets, and widening of credit spreads. Other markets, including the market for residential credit securities, also experienced similar trends, albeit on a relatively lesser scale. Future market shocks, from COVID-19 or otherwise, could have similar effects.

Economic Conditions

The conditions related to COVID-19 discussed above have also adversely affected our business and we expect these conditions to continue to some extent during 2022. The significant decrease in economic activity could have an adverse effect on the value of our investments in mortgage real estate-related assets, particularly residential real estate assets. In light of COVID-19’s impact on the overall economy, such as a possible return to rising unemployment levels or changes in consumer behavior related to loans as well as government policies and pronouncements, borrowers may experience difficulties meeting their obligations or seek to forbear payment on or refinance their mortgage loans to avail themselves of lower rates. Elevated levels of delinquency or default would have an adverse impact on the value of our mortgage real estate related-assets. Adverse economic conditions could negatively impact businesses in which we lend to in connection with our middle market lending activities, resulting in potential delinquencies, defaults or declines in asset values. To the extent current conditions persist or worsen, there may be a negative effect on our results of operations, which may reduce earnings and, in turn, cash available for distribution to our stockholders. COVID-19 could also negatively impact the availability of key personnel necessary to conduct our business.

Financing Conditions

We may also experience more difficulty in our financing operations. COVID-19 had previously caused mortgage REITs to experience severe disruptions in financing operations (including the cost, attractiveness and availability of financing), especially the ability to utilize repurchase financing and the margin requirements related to such financing. The less liquid markets that make up a significant portion of our credit portfolio, including residential securities and whole loans and corporate loans, experienced significant disruption over this crisis period, marked by a sharp retraction in volumes and a lack of access to credit

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for borrowers. If conditions related to COVID-19 deteriorate, we could experience an unwillingness or inability of our potential lenders to provide us with or renew financing, increased margin calls, and/or additional capital requirements. These conditions could force us to sell our assets at inopportune times or otherwise cause us to potentially revise our strategic business initiatives, which could adversely affect our business. To the extent the COVID-19 pandemic adversely affects our business and financial results, it may also have the effect of heightening many of the other risks described in this Annual Report on Form 10-K for the year ended December 31, 2021, such as our risks related to our use of leverage, management of our liquidity, exposure to counterparties, our ability to pay dividends in the future and our ability to protect our information technology networks and infrastructure from unauthorized access, misuse, malware, phishing and other security events as a result of our remote working environment or otherwise.

We cannot predict the effect of the government response to COVID-19 on us.

The extent of the COVID-19-related disruptions and the duration of the pandemic as well as the long-term impacts of the social, economic, and financial disruptions caused by the COVID-19 pandemic are unknown at this time and may be severe. Governments have adopted, and we expect will continue to adopt, policies, laws and plans intended to address the COVID-19 pandemic and adverse developments in the credit, financial and mortgage markets. While the U.S. Federal Reserve, the U.S. government and other governments have implemented unprecedented financial support or relief measures in response to concerns surrounding the economic effects of the COVID-19 pandemic, the ongoing results of such measures or the results of such measures ending, cannot be predicted and we cannot assure you that these programs will be effective or sufficient at addressing the adverse impacts of the pandemic or otherwise have a positive impact on our business.

Risks Related to Our Liquidity and Funding***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. The risks associated with leverage are more acute during periods of economic slowdown or recession.

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

- short-term interest rates increase;
- the market value of our investments available to collateralize borrowings decreases;
- the “haircut” applied to our assets under the repurchase agreements or other secured financing arrangements increases;
- interest rate volatility increases;
- forced sales, particularly under adverse market conditions, such as those which occurred as a result of the COVID-19 pandemic;
- disruption in the repo market generally or the infrastructure that supports it; or
- the availability of financing in the market decreases.

Our use of leverage may result in 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. Borrowings secured by our fixed-rate mortgage-backed securities generally are more susceptible to margin calls as increases in interest rates tend to more negatively affect the market value of fixed-rate securities. Margin calls are most likely in market conditions in which the unencumbered assets that we would use to meet the margin calls have also decreased in value. The risks associated with margin calls are more acute during periods of economic slowdown or recession. We experienced margin calls much higher than historical norms during the onset of COVID-19.

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

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Item 1A. Risk Factors***We may exceed our target leverage ratios.***

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

We may not be able to achieve our optimal leverage.

We use leverage as a strategy to increase the return to our investors. However, we may not be able to achieve our desired leverage if we determine that the leverage would expose us to excessive risk; our lenders do not make funding available to us at acceptable rates; or our lenders require that we provide additional collateral to cover our borrowings.

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

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

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

Our ability to meet cash needs depends on many factors, several of which are beyond our control. Ineffective management of liquidity levels could cause us to be unable to meet certain financial obligations. Potential conditions that could impair our liquidity include: unwillingness or inability of any of our potential lenders to provide us with or renew financing, margin calls, additional capital requirements applicable to our lenders, a disruption in the financial markets or declining confidence in our creditworthiness 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.

Volatile market conditions for our assets can result in contraction in liquidity for those assets and the related financing.

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, COVID-19 or other pandemic diseases, geopolitical issues including events such as the United Kingdom's recent exit from the European Union (commonly referred to as "Brexit"), trade wars, unemployment, the availability and cost of financing, the mortgage market, the repurchase agreement market and a declining real estate market or prolonged government shutdown may contribute to increased volatility and diminished expectations for the economy and markets.

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

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

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

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

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

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

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

These indices generally reflect short-term interest rates. The interest rates on our borrowings similarly reflect short-term interest rates. 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.

The discontinuation of LIBOR may affect our results.

The United Kingdom Financial Conduct Authority, or FCA, which regulates LIBOR, has announced that all LIBOR tenors relevant to us will cease to be published or will no longer be representative after June 30, 2023. The FCA's announcement coincided with the March 5, 2021, announcement of LIBOR's administrator, the ICE Benchmark Administration Limited, or IBA, indicating that, as a result of not having access to input data necessary to calculate LIBOR tenors relevant to us on a representative basis after June 30, 2023, IBA would have to cease publication of such LIBOR tenors immediately after the last publication on June 30, 2023. These announcements mean that any of our LIBOR-based borrowings and assets that mature beyond June 30, 2023 need to be converted to alternative interest rates. Many of our counterparties are now subject to regulatory guidance not to enter new U.S. Dollar LIBOR ("LIBOR") contracts except in limited circumstances.

The Alternative Reference Rates Committee, or ARRC, a committee of private sector entities with ex-officio official sector members convened by the Federal Reserve Board and the Federal Reserve Bank of New York, has recommended the Secured Overnight Financing Rate ("SOFR") plus a recommended spread adjustment as the replacement for LIBOR. There are significant differences between LIBOR and SOFR, such as LIBOR being an unsecured lending rate while SOFR is a secured lending rate, and SOFR is an overnight rate while LIBOR reflects term rates at different maturities. If our LIBOR-based

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borrowings are converted to SOFR, the differences between LIBOR and SOFR, plus the recommended spread adjustment, could result in interest costs that are higher than if LIBOR remained available, which could have a material adverse effect on our results. Although SOFR is the ARRC's recommended replacement rate, it is also possible that lenders may instead choose alternative replacement rates that may differ from LIBOR in ways similar to SOFR or in other ways that would result in higher borrowing costs for us. It is not yet possible to predict the magnitude of LIBOR's end on our borrowing costs given the uncertainty about which rates will replace LIBOR and the timing of actual replacement.

New York State has passed legislation intended to help with "tough legacy" LIBOR contracts and the federal government may pass similar legislation.

Many floating-rate instruments, including some transactions in which we are issuer or sponsor, reference LIBOR. US regulators and the ARRC have recommended that all LIBOR-based instruments include robust fallback language dictating what rate will apply when LIBOR ends. The fallbacks recommended by the ARRC are different for various non-derivative instruments, and not all LIBOR-based instruments will incorporate the recommended fallbacks. The International Swaps and Derivatives Association ("ISDA") has implemented fallback language and a protocol that will ensure LIBOR-based derivatives amongst protocol participants fallback to compounded SOFR. We have opted into the ISDA 2020 IBOR Fallbacks protocol. However, the variations in fallback language in different financial instruments and the adoption of different replacement rates or methodologies in such fallback language could result in unexpected differences between our LIBOR-based assets and our LIBOR-based interest rate hedges or borrowings. Certain instruments may be affected by legislation adopted at the state or federal level. We may incur costs amending instruments not covered by the ISDA protocol, clearinghouse rulebooks or legislation to implement fallbacks. We may also decide not to amend, in which case we may bear the cost and risk of litigation. Some instruments, particularly consumer-facing adjustable-rate mortgages, are impractical to amend. With respect to those instruments, we may bear the cost and risk of litigation if not adequately addressed by legislation. Our lenders may be less willing to extend credit secured by assets that do not include robust fallbacks.

It is expected that switching existing financial instruments and hedging transactions from LIBOR to SOFR or other replacement rates will include a spread adjustment. ISDA has described the spread calculation methodology that will apply to derivatives that adopt the ISDA recommendations for derivatives, and the ARRC has recommended the same methodology for all non-consumer financial instruments. The adjustment calculation is intended to minimize value transfer between counterparties, borrowers, and lenders, but there is no assurance that the calculated spread adjustment will be fair and accurate or that it will not result in higher interest costs.

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

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

Holders of our fixed-to-floating preferred shares should refer to the relevant prospectus to understand the LIBOR-cessation provisions applicable to that class. We are considering all available options with respect to our preferred stock, which include liability management actions such as tenders, calls, exchange offers, language amendments, changing the calculation agent, and/or allowing fallbacks to trigger. Each such class that is currently outstanding becomes callable at the same time it begins to pay a LIBOR-based rate. Should we choose to call a class of preferred shares in order to avoid a dispute over the results of the LIBOR fallbacks for that class, we may be forced to raise additional funds at an unfavorable time. Brokerages may have restrictions in trading our preferred shares.

It may be uneconomical to "roll" our TBA dollar roll transactions or we may be unable to meet margin calls on our TBA contracts.

From time to time, we enter into TBAs as an alternate means of investing in and financing Agency mortgage-backed securities. A TBA contract is an agreement to purchase or sell, for future delivery, an Agency mortgage-backed security with a specified issuer, term and coupon. A TBA dollar roll represents a transaction where TBA contracts with the same terms but different settlement dates are simultaneously bought and sold. The TBA contract settling in the later month typically prices at a discount to the earlier month contract with the difference in price commonly referred to as the "drop". The drop is a reflection of the

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expected net interest income from an investment in similar Agency mortgage-backed securities, net of an implied financing cost, that would be foregone as a result of settling the contract in the later month rather than in the earlier month. The drop between the current settlement month price and the forward settlement month price occurs because in the TBA dollar roll market, the party providing the implied financing is the party that would retain all principal and interest payments accrued during the financing period. Accordingly, TBA dollar roll income generally represents the economic equivalent of the net interest income earned on the underlying Agency mortgage-backed security less an implied financing cost. Consequently, dollar roll transactions and such forward purchases of Agency securities represent a form of off-balance sheet financing and increase our "at risk" leverage.

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

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

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

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

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

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

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

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

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In a securitization structure, we convey a pool of assets to a special purpose vehicle, the issuing entity, and in turn the issuing entity issues one or more classes of non-recourse notes pursuant to the terms of an indenture. The notes are secured by the pool of assets. In exchange for the transfer of assets to the issuing entity, we receive the cash proceeds of the sale of non-recourse notes and a 100% interest in certain subordinate interests of the issuing entity. The securitization of all or a portion of our residential loan portfolio might magnify our exposure to losses because any subordinate interest we retain in the issuing entity would be subordinate to the notes issued to investors and we would, therefore, absorb all of the losses sustained with respect to a securitized pool of assets before the owners of the notes experience any losses. Moreover, we cannot assure you 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.

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

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

Counterparties may require us to enter into covenants that restrict our investment strategy.

If or when we obtain debt financing, lenders (especially in the case of credit facilities) may impose restrictions on us that would affect our ability to incur additional debt, make certain allocations or acquisitions, reduce liquidity below certain levels, make distributions to our stockholders, or redeem debt or equity securities, and may impact our flexibility to determine our operating policies and strategies. We may sell assets or reduce leverage at an inopportune time to avoid breaching these restrictions. If we fail to meet or satisfy any of these covenants, we would be in default under these agreements, and our lenders could elect to declare outstanding amounts due and payable, terminate their commitments, require the posting of additional collateral and enforce their interests against existing collateral. We may also be subject to cross-default and acceleration rights and, with respect to collateralized debt, the posting of additional collateral and foreclosure rights upon default. A default and resulting repayment acceleration could significantly reduce our liquidity, which could require us to sell our assets to repay amounts due and outstanding. This could also significantly harm our business, financial condition, results of operations and ability to make distributions, which could cause our share price to decline. A default could also significantly limit our financing alternatives such that we would be unable to pursue our leverage strategy, which could adversely affect our returns.

We may be unable to profitably execute or participate in future securitization transactions.

There are a number of factors that can have a significant impact on whether we are able to execute or participate in a securitization transaction, and whether such a transaction is profitable to us or results in a loss. One of these factors is the price we pay for the mortgage loans that we securitize, which, in the case of residential mortgage loans, is impacted by the level of competition in the marketplace for acquiring mortgage loans and the relative desirability to originators of retaining mortgage loans as investments or selling them to third parties such as us. As such, we can provide no assurance that we will be able to identify and make investments in residential mortgage loans at attractive levels and pricing, which could adversely affect our ability to execute future securitizations in this space. Another factor that impacts the profitability of a securitization transaction is the cost to us of the short-term warehouse financing facilities that we use to finance our holdings of mortgage loans prior to securitization, which cost is affected by a number of factors including the availability of this type of financing to us, the interest

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rate on this type of financing, the duration of the financing we incur, and the percentage of our mortgage loans for which third parties are willing to provide short-term financing. After we acquire mortgage loans that we intend to securitize, we can also suffer losses if the value of those loans declines prior to securitization. Declines in the value of a mortgage loan, for example, can be due to, among other things, changes in interest rates, changes in the credit quality of the loan, and changes in the projected yields required by investors to invest in securitization transactions. To the extent we seek to hedge against a decline in loan value due to changes in interest rates, there is a cost of hedging that also affects whether a securitization is profitable. Other factors that can significantly affect whether a securitization transaction is profitable to us include the criteria and conditions that rating agencies apply and require when they assign ratings to the mortgage-backed securities issued in our securitization transactions, including the percentage of mortgage-backed securities issued in a securitization transaction that the rating agencies will assign a triple-A rating to, which is also referred to as a rating agency subordination level. Rating agency subordination levels can be impacted by numerous factors, including, without limitation, the credit quality of the loans securitized, the geographic distribution of the loans to be securitized, the structure of the securitization transaction and other applicable rating agency criteria. All other factors being equal, the greater the percentage of the mortgage-backed securities issued in a securitization transaction that the rating agencies will assign a triple-A rating to, the more profitable the transaction will be to us.

The price that investors in mortgage-backed securities will pay for securities issued in our securitization transactions also has a significant impact on the profitability of the transactions to us, and these prices are impacted by numerous market forces and factors. In addition, the underwriter(s) or placement agent(s) we select for securitization transactions, and the terms of their engagement, can also impact the profitability of our securitization transactions. Also, transaction costs incurred in executing transactions impact the profitability of our securitization transactions and any liability that we may incur, or may be required to reserve for, in connection with executing a transaction can cause a loss to us. To the extent that we are not able to profitably execute future securitizations of residential mortgage loans or other assets, including for the reasons described above or for other reasons, it could have a material adverse impact on our business and financial results.

Risks of Ownership of Our Common Stock

Our charter does not permit ownership of over 9.8% of our common stock or preferred stock.

To maintain our qualification as a REIT for U.S. 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). For the purpose of preserving our REIT qualification and for other reasons, our charter prohibits direct or constructive ownership by any person of more than 9.8% of the total number or value of any class of our outstanding common stock or preferred stock. Our charter’s constructive ownership rules are complex and may cause the outstanding stock owned by a group of related individuals or entities to be deemed to be constructively owned by one individual or entity. As a result, the acquisition of less than 9.8% of the outstanding shares of any class of common stock or preferred stock by an individual or entity could cause that individual or entity to own constructively in excess of 9.8% of the outstanding shares of such class of stock and thus be subject to our charter’s ownership limit. Any attempt to own or transfer shares of our common stock or preferred stock in excess of the ownership limit without the consent of the Board shall be void, or, alternatively, will result in the shares being transferred by operation of law to a charitable trust. Our Board, in its sole and absolute discretion, may waive or modify the ownership limit with respect to one or more persons who would not be treated as “individuals” if it is satisfied that ownership in excess of this limit will not otherwise jeopardize our status as a REIT for U.S. 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 stock in connection with a change in control.

Provisions contained in Maryland law may have anti-takeover effects, potentially preventing investors from receiving a “control premium” for their shares.

Provisions contained in our charter and bylaws, as well as the Maryland General Corporation Law (the “MGCL”) 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 any class our common stock or of our preferred stock, in each case, in number of shares or value, without the consent of our Board.
- Preferred Stock. Our charter authorizes our Board to issue preferred stock in one or more classes and to

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establish the preferences and rights of any class of preferred stock issued. These actions can be taken without soliciting stockholder approval.

- Maryland Business Combination Act. The Maryland Business Combination Act provides that, subject to certain exceptions and limitations, certain business combinations between a Maryland corporation and an “interested stockholder” (defined generally as any person who beneficially owns 10% or more of the voting power of our outstanding voting stock or an affiliate or associate of ours who, at any time within the two-year period immediately prior to the date in question, was the beneficial owner of 10% or more of the voting power of our then outstanding shares of stock) or an affiliate of any interested stockholder are prohibited for five years after the most recent date on which the stockholder becomes an interested stockholder, and thereafter imposes two super-majority stockholder voting requirements on these combinations, unless, among other conditions, our common stockholders receive a minimum price, as defined in the MGCL, for their shares of stock and the consideration is received in cash or in the same form as previously paid by the interested stockholder for its shares of stock. We have opted out of the Maryland Business Combination Act in our charter. However, if we amend our charter to opt back in to the statute, subject to stockholder approval, the Maryland Business Combination Act could have the effect of discouraging offers to acquire us and of increasing

the difficulty of consummating any such offers, even if our acquisition would be in our stockholders’ best interests.

- Maryland Control Share Acquisition Act. The Maryland Control Share Acquisition Act provides that, subject to certain exceptions, holders of “control shares” (defined as voting shares that, when aggregated with all other shares controlled by the stockholder, entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a “control share acquisition” (defined as the direct or indirect acquisition of ownership or control of issued and outstanding “control shares”) have no voting rights except to the extent approved by our stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding shares owned by the acquirer, by our officers, or by our employees who are also directors of our company. We are currently subject to the Maryland Control Share Acquisition Act.
- Title 3, Subtitle 8 of the MGCL: These provisions of the MGCL permit our board of directors, without stockholder approval and regardless of what is provided in our charter or bylaws, to implement certain takeover defenses, including adopting a classified board or increasing the vote required to remove a director.

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

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

Our reported GAAP financial results 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.

Compliance, Regulatory & Legal Risks

Accounting rules related to certain of our transactions are highly complex and involve significant judgment and assumptions. Our application of GAAP may produce financial results that fluctuate from one period to another.

Accounting rules for valuations of investments, mortgage loan sales and securitizations, investment consolidations, acquisitions of real estate and other aspects of our operations are highly complex and involve significant judgment and assumptions. These complexities could lead to a delay in preparation of financial information and the delivery of this information to our

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

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

New laws may be passed affecting the relationship between Fannie Mae, Freddie Mac and the federal government.

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

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

Shortly after Fannie Mae and Freddie Mac were placed in federal conservatorship, the Secretary of the U.S. Treasury suggested that the guarantee payment structure of Fannie Mae and Freddie Mac in the U.S. housing finance market should be re-examined. The future roles of Fannie Mae and Freddie Mac could be significantly reduced and the nature of their guarantees could be eliminated or considerably limited relative to historical measurements. The U.S. Treasury could also stop providing credit support to Fannie Mae and Freddie Mac in the future. Any changes to the nature of the guarantees provided by Fannie Mae and Freddie Mac could redefine what constitutes an Agency mortgage-backed security and could have broad adverse market implications. While the likelihood that major mortgage finance system reform will be enacted in the short term remains uncertain, it is possible that the adoption of any such reforms could adversely affect the types of assets we can buy, the costs of these assets and our business operations. A reduction in the ability of mortgage loan originators to access Fannie Mae and Freddie Mac to sell their mortgage loans may adversely affect the mortgage markets generally and adversely affect the ability of mortgagors to refinance their mortgage loans. In addition, any decline in the value of securities issued by Fannie Mae and Freddie Mac may affect the value of MBS in general. The change of FHFA leadership and the fact that a permanent Director has yet to be confirmed raise further uncertainties about whether, and if so on what timeline, the Biden administration will address the conservatorships of the GSEs and any comprehensive housing reform. If Fannie Mae or Freddie Mac was eliminated, or their structures were to change in a material manner that is not compatible with our business model, we would not be able to acquire Agency mortgage-backed securities from these entities, which could adversely affect our business operations.

We may be subject to liability for potential violations of truth-in-lending or other similar consumer protection laws and regulations.

Federal consumer protection laws and regulations regulate residential mortgage loan underwriting and originators' lending processes, standards, and disclosures to borrowers. These laws and regulations include, among others, the Consumer Financial Protection Bureau's ("CFPB") "ability-to-repay" and "qualified mortgage" regulations. In addition, there are various other federal, state, and local laws and regulations that are intended to discourage predatory lending practices by residential mortgage loan originators. For example, the federal Home Ownership and Equity Protection Act of 1994 ("HOEPA") which was expanded under the Dodd Frank Act, prohibits inclusion of certain provisions in residential mortgage loans that have mortgage rates or origination costs in excess of prescribed levels and requires that borrowers be given certain disclosures prior to origination. The Dodd-Frank Act grants enforcement authority and broad discretionary regulatory authority to the CFPB to

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prohibit or condition terms, acts or practices relating to residential mortgage loans that the CFPB finds abusive, unfair, deceptive or predatory, as well as to take other actions that the CFPB finds are necessary or proper to ensure responsible affordable mortgage credit remains available to consumers. The Dodd-Frank Act also affects the securitization of mortgages (and other assets) with requirements for risk retention by securitizers and requirements for regulating rating agencies.

Numerous regulations have been issued pursuant to the Dodd-Frank Act, including regulations regarding mortgage loan servicing, underwriting and loan originator compensation and others could be issued in the future. These requirements can and do change as statutes and regulations are enacted, promulgated, amended, and interpreted, and the recent trends among federal and state lawmakers and regulators have been toward increasing laws, regulations, and investigative procedures concerning the mortgage industry generally. As a result, we are unable to fully predict at this time how the Dodd-Frank Act, as well as other laws or regulations that may be adopted in the future, will affect our business, results of operations and financial condition, or the environment for repurchase financing and other forms of borrowing, the investing environment for Agency MBS, non-Agency mortgage-backed securities and/or residential mortgage and MSR. We believe that the Dodd-Frank Act and the regulations promulgated thereunder are likely to continue to increase the economic and compliance costs for participants in the mortgage and securitization industries, including us.

Some states have enacted, or may enact, similar laws or regulations, which in some cases may impose restrictions and requirements greater than those in place under federal laws and regulations. In addition, under the anti-predatory lending laws of some states, the origination of certain residential mortgage loans, including loans that are classified as “high cost” loans under applicable law, must satisfy a net tangible benefits test with respect to the borrower. This test, as well as certain standards set forth in the “ability-to-repay” and “qualified mortgage” regulations, may be highly subjective and open to interpretation. As a result, a court may determine that a residential mortgage loan did not meet the applicable standard or test even if the originator reasonably believed such standard or test had been satisfied. Failure of residential mortgage loan originators or servicers to comply with federal consumer protection laws and regulations could subject us, as an assignee or purchaser of these loans (or as an investor in securities backed by these loans), to monetary penalties and defenses to foreclosure, including by recoupment or setoff of damages and costs, which for some violations included the sum of all finance charges and fees paid by the consumer, and could result in rescission of the affected residential mortgage loans, which could adversely impact our business and financial results. On December 10, 2020, the Consumer Financial Protection Bureau adopted a set of “bright-line” loan pricing thresholds to replace the previous qualified mortgage 43% debt-to-income threshold calculated in accordance with “Appendix Q”. The Consumer Financial Protection Bureau also created a new category of a qualified mortgage, referred to as a “Seasoned QM”, which consists of first-lien, fixed rate loans that met certain performance requirements over a seasoning period of at least 36 months, are held in portfolio until the end of the seasoning period by the originating creditor or first purchaser, comply with general restrictions on product features and points and fees, and meet certain underwriting requirements. At this time, however, there can be no assurance what impact the final rules will have on the mortgage market and the “ability-to-repay” rules. Furthermore, the temporary qualified mortgage provision applicable to certain mortgage loans eligible for purchase or guarantee by the GSEs under the ability-to-repay, commonly referred to as the “GSE patch,” is scheduled to expire on the earlier of (i) the mandatory compliance date of the final rule amending the general qualified mortgage definition described above (which is July 1, 2021) or (ii) the date that the GSEs exit conservatorship. We cannot predict the impact of its expiration on the mortgage market. On April 27, 2021, the CFPB issued a final rule extending the mandatory compliance date of the General Qualified Mortgage Rule to October 1, 2022. It similarly extends expiration of the GSE patch to October 1, 2022 or the date the applicable GSE exits conservatorship, whichever happens first.

Various regulatory measures enacted in response to the COVID-19 pandemic affect mortgage servicing and could have a material adverse effect on our business and financial results. The Federal, state, or local governments may pass additional stimulus bills, foreclosure relief measures and may reinstate foreclosure and eviction moratoriums that may continue to adversely impact the cash flow on mortgage loans.

The CFPB Director has publicly stated that CFPB is carefully monitoring conditions in the mortgage market and taking steps to minimize avoidable foreclosures and address any compliance failures, including by conducting prioritized assessments, or targeted supervisory reviews, designed to obtain real-time information from mortgage servicers due to the elevated risk of consumer harm because of the COVID 19 pandemic. On June 28, 2021, the CFPB finalized amendments to the federal mortgage servicing regulations designed to support the housing market’s transition to post-pandemic operation. The rules established temporary special safeguards to help ensure that borrowers have time before foreclosure to explore their options, including loan modifications and selling their homes. The rules cover loans on principal residences, generally exclude small servicers, and took effect on August 31, 2021. On November 10, 2021, the Board of Governors of the Federal Reserve, the CFPB, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, and the state financial regulators (collectively, agencies) announced that they were discontinuing the more flexible supervisory approach announced in April 2020, concluding that servicers have had sufficient time to adjust their operations by, among other things, taking steps to work with consumers affected by the COVID-19 pandemic and developing more robust business continuity and remote work capabilities. CFPB’s December 2021 Supervisory Highlights shows, among other things, that CFPB is prioritizing compliance with Regulation Z and Regulation X, as well as unfair and deceptive acts or

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practices prohibited by the CFPA. This enhanced scrutiny is likely to continue to increase the economic and compliance costs for participants in the mortgage and securitization industries, including us.

We may not be able to maintain compliance with laws and regulations applicable to our Residential Credit or MSR businesses.

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

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 and result in enhanced disclosure obligations, including with respect to climate change or other environmental, social, or governance (“ESG”) topics, increasing our regulatory burden. Moreover, government efforts to address climate change may impact our business.

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.

We are subject to risks and liabilities in connection with sponsoring, investing in and managing new funds and other investment accounts, including potential regulatory risks.

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

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

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

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requirements relate to, among other things, maintaining an effective and comprehensive compliance program, recordkeeping and reporting requirements and disclosure requirements. The Investment Advisers Act generally grants the SEC broad administrative powers, including the power to limit or restrict an investment adviser from conducting advisory activities in the event it fails to comply with federal securities laws. Additional sanctions that may be imposed for failure to comply with applicable requirements under the Investment Advisers Act include the prohibition of individuals from associating with an investment adviser, the revocation of registrations and other censures and fines. We may in the future be required to register one or more entities as a commodity pool operator or commodity trading adviser, subjecting those entities to the regulations and oversight of the Commodity Futures Trading Commission and the National Futures Association. We may also become subject to various international regulations on the asset management industry.

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

We intend to conduct our business so as not to become regulated as an investment company under the Investment Company Act. We currently rely on the exemption from registration provided by Section 3(c)(5)(C) of the Investment Company Act. Section 3(c)(5)(C), as interpreted by the staff of the SEC, requires us to invest at least 55% of our assets in “mortgages and other liens on and interest in real estate” (“Qualifying Real Estate Assets”) and at least 80% of our assets in Qualifying Real Estate Assets plus our interests in MSR and other real estate related assets. The assets that we acquire, therefore, are limited by this provision of the Investment Company Act and the rules and regulations promulgated under the Investment Company Act.

We rely on an SEC interpretation that “whole pool certificates” that are issued or guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae (“Agency Whole Pool Certificates”) are Qualifying Real Estate Assets under Section 3(c)(5)(C). This interpretation was promulgated by the SEC staff in a no-action letter in the 1980s, was reaffirmed by the SEC in 1992 and has been commonly relied upon by mortgage REITs.

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

If the SEC changes its views regarding which securities are Qualifying Real Estate Assets or real estate related assets, adopts a contrary interpretation with respect to Agency Whole Pool Certificates or otherwise believes we do not satisfy the exemption under Section 3(c)(5)(C), we could be required to restructure our activities or sell certain of our assets. The net effect of these factors will be to lower our net interest income, which could negatively affect the market price of shares of our capital stock and our ability to distribute dividends. 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.

Risks Related to Our Taxation as a REIT***Our failure to maintain our qualification as a REIT would have adverse tax consequences.***

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

We also indirectly own interests in entities that have elected to be taxed as REITs under the U.S. federal income tax laws, or “Subsidiary REITs.” Subsidiary REITs are subject to the various REIT qualification requirements that are applicable to us. If any Subsidiary REIT were to fail to qualify as a REIT, then (i) that Subsidiary REIT would become subject to regular U.S.

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federal, state, and local corporate income tax, (ii) our interest in such Subsidiary REIT would cease to be a qualifying asset for purposes of the REIT asset tests, and (iii) it is possible that we would fail certain of the REIT asset tests, in which event we also would fail to maintain our qualification as a REIT unless we could avail ourselves of certain relief provisions. While we believe that the Subsidiary REITs have qualified as REITs under the Code, we have joined each Subsidiary REIT in filing “protective” TRS elections under Section 856(l) of the Code. We cannot assure you that such “protective” TRS elections would be effective to avoid adverse consequences to us. Moreover, even if the “protective” elections were to be effective, the Subsidiary REITs would be subject to regular corporate income tax, and we cannot assure you that we would not fail to satisfy the requirement that not more than 20% of the value of our total assets may be represented by the securities of one or more TRSs. If we fail to maintain our qualification as a REIT, we would be subject to U.S. federal income tax at regular corporate rates. Also, unless the IRS were to grant 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 maintain our qualification 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 six 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.

Our distribution requirements could adversely affect our ability to execute our business plan.

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

To the extent that we satisfy this distribution requirement, but distribute less than 100% of our taxable income, we will be subject to U.S. 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 U.S. federal tax laws. We intend to make distributions to our stockholders to comply with the REIT qualification requirements of the Code.

From time to time, we may generate taxable income greater than our income for financial reporting purposes prepared in accordance with GAAP, or differences in timing between the recognition of taxable income and the actual receipt of cash may occur. For example, if we purchase Agency or non-Agency securities at a discount, we generally are required to accrete the discount into taxable income prior to receiving the cash proceeds of the accreted discount at maturity, and in some cases, potentially recognize the discount in taxable income once such amounts are reflected in our financial statements. If we do not have other funds available in these situations we could be required to (i) borrow funds on unfavorable terms, (ii) sell investments at disadvantageous prices, (iii) distribute our own stock, or (iv) 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 the corporate income tax and 4% excise tax in a particular year. Also, we or our subsidiaries may hold debt investments that could require subsequent modifications. If an amendment to an outstanding debt is a “significant modification” for U.S. federal income tax purposes, the modified debt may be deemed to have been reissued in a debt-for-debt taxable exchange with the borrower. This deemed reissuance could result in a portion of the modified debt not qualifying as a good REIT asset if the underlying security has declined in value, and would cause us to recognize income to the extent the principal amount of the modified debt exceeds our adjusted tax basis in the unmodified debt. 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 stock.

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

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

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

We may choose to pay dividends in our own stock.

We may in the future distribute taxable dividends that are payable in cash or shares of our 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 stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our stock.

Our TRSs cannot constitute more than 20% of our total assets.

A TRS is a corporation, other than a REIT or a qualified REIT subsidiary, in which a REIT owns stock and with which the REIT jointly 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 TRSs. A TRS may earn income that would not be qualifying income if it was earned directly by the parent REIT. Overall, at the close of any calendar quarter, no more than 20% of the value of a REIT’s assets may consist of stock or securities of one or more TRSs.

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

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

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

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

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

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

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

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

Complying with REIT requirements may cause us to forgo otherwise attractive opportunities and may force us to liquidate otherwise attractive investments.

To remain qualified as a REIT for U.S. federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts that we distribute to our stockholders and the ownership of our stock. Our ability to acquire and hold our investments is subject to the applicable REIT qualification tests. We must ensure that at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, U.S. Government securities and qualified real estate assets. The remainder of our investment in securities (other than U.S. Government securities, qualified real estate assets and securities issued by a TRS) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than U.S. Government securities, qualified real estate assets and securities issued by a TRS) can consist of the securities of any one issuer, and no more than 20% of the value of our total assets can be represented by securities of one or more TRSs.

Changes in the values or other features of our assets could cause inadvertent violations of the REIT requirements. If we fail to comply with the REIT 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. Additionally, we may be required to make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution.

Accordingly we may be unable to pursue investments that would be otherwise advantageous to us or be required to liquidate from our investment portfolio otherwise attractive investments if we feel it is necessary to satisfy the source-of-income, asset-diversification or distribution requirements for qualifying as a REIT. These actions could have the effect of reducing our income and amounts available for distribution to our stockholders.

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Item 1A. Risk Factors***Liquidation of assets may jeopardize our REIT qualification or create additional tax liability for us.***

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

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

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

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

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

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.

As of Q3 2021, we have disposed our interest in mezzanine loans and similar debt (including preferred equity investments that we treat as mezzanine loans for U.S. federal income tax purposes) through our prior commercial real estate business, 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 acquired mezzanine loans or similar debt that may not have met all of the requirements of this safe harbor. In the event we owned 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 retroactively fail to maintain our qualification 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 continued 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 U.S. federal income tax purposes.

Item 1A. Risk Factors***The tax on prohibited transactions limits our ability to engage in certain transactions.***

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 U.S. federal income tax purposes.

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

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

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

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

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

The lease of qualified healthcare properties to a TRS is subject to special requirements.

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

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

We purchase and sell Agency mortgage-backed securities through TBAs and recognize income or gains from the disposition of those TBAs, through dollar roll transactions or otherwise, and may continue to do so in the future. While there is no direct authority with respect to the qualification of TBAs as real estate assets or U.S. Government securities for purposes of the 75% asset test or the qualification of income or gains from dispositions of TBAs as gains from the sale of real property (including interests in real property and interests in mortgages on real property) or other qualifying income for purposes of the 75% gross income test, we treat our TBAs as qualifying assets for purposes of the REIT asset tests, and we treat income and gains from our TBAs as qualifying income for purposes of the 75% gross income test, based on an opinion of counsel substantially to the effect that (i) for purposes of the REIT asset tests, our ownership of a TBA should be treated as ownership of real estate assets, and (ii) for purposes of the 75% REIT gross income test, any gain recognized by us in connection with the settlement of our

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TBAs should be treated as gain from the sale or disposition of an interest in mortgages on real property. Opinions of counsel are not binding on the IRS, and no assurance can be given that the IRS will not successfully challenge the conclusions set forth in such opinions. In addition, it must be emphasized that the opinion of counsel is based on various assumptions relating to our TBAs and is conditioned upon fact-based representations and covenants made by our management regarding our TBAs. No assurance can be given that the IRS would not assert that such assets or income are not qualifying assets or income. If the IRS were to successfully challenge the opinion of counsel, we could be subject to a penalty tax or we could fail to remain qualified as a REIT if a sufficient portion of our assets consists of TBAs or a sufficient portion of our income consists of income or gains from the disposition of TBAs.

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

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

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

The present U.S. 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 U.S. federal income tax treatment of an investment in us. The U.S. 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, which results in statutory changes as well as frequent revisions to regulations and interpretations. Several recent proposals have been made that would make substantial changes to the U.S. federal income tax laws generally. We cannot predict whether any of these proposed changes will become law. Future revisions in federal tax laws and interpretations thereof could affect or cause us to change our investments and commitments and affect the tax considerations of an investment in us.

Counterparty Risks***The soundness of our counterparties and other financial institutions could adversely affect us.***

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

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

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

Item 1A. Risk Factors**Investment and Market Related Risks*****We may experience declines in the market value of our assets.***

We may experience declines in the market value of our assets due to interest rate changes, deterioration of the credit of the borrower or counterparty, or other reasons described in other risk factors. These declines can result in fair value adjustments, impairments, decreases in reported asset and earnings, margin calls, liquidity risks, and other adverse impacts.

Investments in MSR may expose us to additional risks.

We invest in MSR and financial instruments whose cash flows are considered to be largely dependent on underlying MSR that either directly or indirectly act as collateral for the investment. We expect to increase our exposure to MSR-related investments in 2022. Generally, we have the right to receive certain cash flows from the owner of the MSR that are generated from the servicing fees and/or excess servicing spread associated with the MSR. Our investments in MSR-related assets expose us to risks associated with MSR, including the following:

- Investments in MSR are highly illiquid and subject to numerous restrictions on transfer and, as a result, there is risk that we would be unable to locate a willing buyer or get required approval to sell MSR in the future should we desire to do so.
- Our rights to the excess servicing spread are subordinate to the interests of Fannie Mae, Freddie Mac and Ginnie Mae, and are subject to extinguishment. Fannie Mae and Freddie Mac each require approval of the sale of excess servicing spreads pertaining to their respective MSR. We have entered into acknowledgment agreements or subordination of interest agreements with them, which acknowledge our subordinated rights.
- Changes in minimum servicing compensation for agency loans could occur at any time and could negatively impact the value of the income derived from MSR.
- The value of MSR is highly sensitive to changes in prepayment rates. Decreasing market interest rates are generally associated with increases in prepayment rates as borrowers are able to refinance their loans at lower costs. Prepayments result in the partial or complete loss of the cash flows from the related MSR. Accordingly, an increase in prepayments can result in a reduction in the value and income we may earn of our MSR related assets and negatively affect our profitability.
- While we have executed recapture agreements with our subservicers to attempt to retain the MSR investment resulting from a refinance transaction, the effectiveness of these efforts is impacted by borrower, subservicer, and unaffiliated lender behavior.
- Servicers are responsible for advancing the payment of principal, interest, and escrow items on mortgage loans when those payments are not timely made by the borrower (including during periods of forbearance) and the timing and amount of recovery of those advances is unpredictable.
- The ongoing impact of COVID-19 on the exposure resulting from loans that are delinquent, defaulted or in foreclosure. The federal CARES Act as well as various state laws and foreclosure and eviction moratoria have increased the cost and complexity of operational controls, expanded the scope and duration of loss mitigation options, and impacted the timing and process of foreclosure and foreclosure alternatives. These limitations can cause delayed or reduced collections and generally increase costs.

If we are not able to successfully manage these and other risks related to investing in MSR, it may adversely affect the value of our MSR-related assets.

Actions by the Federal Reserve may affect the price and returns of our assets.

The Federal Reserve owns approximately \$2.6 trillion of Agency mortgage-backed securities as of December 31, 2021. Certain actions taken by the U.S. government, including the Federal Reserve, may have a negative a impact on our results. For example, rising short-term interest rates as the Federal Reserve lifts its monetary policy rate to slow the currently elevated rate of inflation may have a negative impact on our results. Meanwhile, any potential future reduction of the Federal Reserve's balance sheet might lead to higher interest rate volatility and wider mortgage-backed security spreads that could negatively impact Annaly's portfolio.

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Item 1A. Risk Factors***We invest in securities that are subject to mortgage credit risk.***

We invest in securities in the credit risk transfer CRT sector. The CRT sector is comprised of the risk sharing transactions issued by Fannie Mae (“CAS”) and Freddie Mac (“STACR”), and similarly structured transactions arranged by third party market participants. The securities issued in the CRT sector are designed to synthetically transfer mortgage credit risk from Fannie Mae and Freddie Mac to private investors. The holder of the securities in the CRT sector has the risk that the borrowers may default on their obligations to make full and timely payments of principal and interest. Investments in securities in the CRT sector could cause us to incur losses of income from, and/or losses in market value relating to, these assets if there are defaults of principal and/or interest on the pool of mortgages referenced in the transaction. The holder of the CRT may also bear the risk of the default of the issuer of the security.

A prolonged economic slowdown or declining real estate values could impair the assets we may own.

Our non-Agency mortgage-backed securities, mortgage loans, and MSR may be susceptible to economic slowdowns or recessions, which could lead to financial losses in our assets and a decrease in revenues, net income and asset values.

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

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

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

Repayments by borrowers and the market value of the related assets could be affected by economic conditions generally or specific to geographic areas or regions of the United States, and concentrations of mortgaged residential properties in particular geographic areas may increase the risk that adverse economic or other developments (including events or conditions related to the COVID-19 pandemic) or natural or man-made disasters affecting a particular region of the country could increase the frequency and severity of losses on mortgage loans or other real estate debt secured by those properties. From time to time, regions of the United States experience significant real estate downturns when others do not. Regional economic declines or conditions in regional real estate markets could adversely affect the income from, and market value of, the mortgaged properties. In addition, local or regional economies may be adversely affected to a greater degree than other areas of the country by developments affecting industries concentrated in such area. A decline in the general economic condition in the region in which mortgaged properties securing the related mortgage loans are located would result in a decrease in consumer demand in the region, and the income from and market value of the mortgaged properties may be adversely affected.

Other regional factors – e.g., rising sea levels, earthquakes, floods, forest fires, hurricanes or changes in governmental rules (including rules related to the COVID-19 pandemic) or fiscal policies – also may adversely affect the mortgaged properties. Assets in certain regional areas may be more susceptible to certain hazards (such as earthquakes, widespread fires, floods or hurricanes) than properties in other parts of the country and collateral properties located in coastal states may be more susceptible to hurricanes than properties in other parts of the country. As a result, areas affected by such events often experience disruptions in travel, transportation and tourism, loss of jobs and an overall decrease in consumer activity, and often a decline in real estate-related investments. These types of occurrences may increase over time or become more severe due to changes in weather patterns and other climate changes. 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.

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

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

There is no assurance that borrowers have maintained or will maintain the insurance required under the applicable loan documents or that such insurance will be adequate. In addition, since the residential mortgage loans generally do not require maintenance of terrorism insurance, we cannot assure you that any property will be covered by terrorism insurance. Therefore, damage to a collateral property caused by acts of terror may not be covered by insurance and may result in substantial losses to us.

Our assets may become non-performing or sub-performing assets in the future.

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

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

It is anticipated that as a result of financial difficulties due to the COVID-19 pandemic, borrowers will continue to request forbearance or other relief with respect to their mortgage payments. In addition, across the country, moratoriums are or were in place in certain states to stop evictions and foreclosures in an effort to lessen the financial burden created by the COVID-19 pandemic and various states have even promulgated guidance to regulated servicers requiring them to formulate policies to assist mortgagors in need as a result of the COVID-19 pandemic. It is anticipated that other forbearance programs, foreclosure moratoriums or other programs or mandates will be imposed or extended, including those that will impact mortgage related assets. Continued moratoriums on foreclosures may significantly impair the servicer’s abilities or our ability to pursue loss mitigation strategies in a timely and effective manner.

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

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

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which could have a material adverse effect on our results of operations, financial condition and our ability to make distributions to our stockholders.

We may be required to repurchase residential mortgage loans or indemnify investors if we breach representations and warranties.

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

Our and our third party service providers' and servicers' due diligence of potential assets may not reveal all weaknesses in such assets.

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

When we foreclose on an asset, we may come to own the property securing the loan.

When we foreclose on a residential real estate asset, we may take title to the property securing that asset, and if we do not or cannot sell the property, we would then come to own and operate it as "real estate owned." Owning and operating real property involves risks that are different (and in many ways more significant) than the risks faced in owning a debt instrument secured by that property. In addition, we may end up owning a property that we would not otherwise have decided to acquire directly at the price of our original investment or at all. If we foreclose on and come to own property, our financial performance and returns to investors could suffer.

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

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

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

We invest a percentage of our assets directly in the ownership of corporate loans and debt securities for middle market companies. Non-investment grade or unrated loans to middle market businesses may carry more inherent risks than loans to larger, investment grade publicly traded entities. These middle market companies generally have less access to public capital markets, and generally have higher financing costs. Such companies, particularly in an economic slowdown or recession, may be in a weaker financial position, may need more capital to expand or compete, and may be unable to obtain financing from their respective private capital providers, public capital markets or from traditional sources, such as commercial banks. In an economic downturn, middle market loan obligors, which may be highly leveraged, may be unable to meet their debt service requirements. Middle market businesses may have narrower product lines, be more vulnerable to exogenous events and maintain smaller market shares than large businesses. Therefore, they may be more vulnerable to competitors' actions and

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market conditions, as well as general economic downturns. Middle market businesses may have more difficulties implementing enterprise resource plans and may face greater challenges integrating acquisitions than large businesses. These businesses may also experience variations in operating results. The success of a middle market company may depend on the management talents and efforts of one or two persons or a small group of persons. The death, disability or resignation of one or more of these persons may have a material adverse impact on such middle market company and its ability to repay its obligations. A deterioration in the value of our investments in corporate loans and debt securities for middle market companies could have an adverse impact on our results of operations.

Subordinated tranches of non-Agency mortgage-backed securities are subordinate in right of payment to more senior securities.

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

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

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

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

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

We are subject to risks of loss from weather conditions, man-made or natural disasters and climate change.

To the extent that climate change impacts changes in weather patterns, assets in which we hold a direct or indirect interest could experience severe weather, including hurricanes, severe winter storms, and flooding due to increases in storm intensity and rising sea levels, among other effects that could impact house prices and housing-related costs and/or disrupt borrowers' ability to pay their mortgage and or loan. Moreover, long term climate change could trigger extreme weather conditions that result in macroeconomic and demographic shifts. Over time, these conditions could result in repricing of the assets (land, property, securities) that we hold. There can be no assurance that climate change and severe weather will not have a material adverse effect on our financial performance.

Operational Risks

Inaccurate models or the data used by models may expose us to risk.

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

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our assets. When models and data prove to be incorrect, misleading or incomplete, any decisions made in reliance thereon expose us to potential risks. For example, by relying on models and data, especially valuation models, we may be induced to buy certain assets at prices that are too high, to sell certain other assets at prices that are too low or to miss favorable opportunities altogether. Similarly, any hedging based on faulty models and data may prove to be unsuccessful. Furthermore, despite our valuation validation processes our models may nevertheless prove to be incorrect.

Some of the risks of relying on analytical models and third-party data are particular to analyzing tranches from securitizations, such as commercial or residential mortgage-backed securities. These risks include, but are not limited to, the following: (i) collateral 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. Additionally, such models may be more prone to inaccuracies in light of the unprecedented conditions created by the COVID-19 pandemic. In particular, the economic, financial and related impacts of COVID-19 are and will be very difficult to model (including as related to the housing and mortgage markets), as the catalyst for these conditions (i.e., a global pandemic) is an event that is unparalleled in modern history and therefore is subject to wide variables, assumptions and inputs. Therefore, historical data used in analytical models may be less reliable in predicting future conditions. Further, the conditions created by COVID-19 have increased volatility across asset classes. Extreme volatility in any asset class, including real estate and mortgage-related assets, increases the likelihood of analytical models being inaccurate as market participants attempt to value assets that have frequent, significant swings in pricing.

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

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

We are highly dependent on information systems.

Our business is highly dependent on communications and information systems. Any failure or interruption of our systems or cyber-attacks or security breaches of our networks or systems could cause delays or other problems in our securities trading activities, including mortgage-backed securities trading activities. A disruption or breach could also lead to unauthorized access to and release, misuse, loss or destruction of our confidential information or personal or confidential information of our employees or third parties, which could lead to regulatory fines, costs of remediating the breach, reputational harm, financial losses, litigation and increased difficulty doing business with third parties that rely on us to meet their own data protection requirements. In addition, we also face the risk of operational failure, termination or capacity constraints of any of the third parties with which we do business or that facilitate our business activities, including clearing agents or other financial intermediaries we use to facilitate our securities transactions, if their respective systems experience failure, interruption, cyber-attacks, or security breaches. Certain third parties provide information needed for our financial statements that we cannot obtain or verify from other sources. If one of those third parties experiences a system failure or cybersecurity incident, we may not have access to that information or may not have confidence in its accuracy. We may face increased costs as we continue to evolve our cyber defenses in order to contend with changing risks. These costs and losses associated with these risks are difficult to predict and quantify, but could have a significant adverse effect on our operating results. Additionally, the legal and regulatory environment surrounding information privacy and security in the U.S. and international jurisdictions is constantly evolving. New business initiatives have increased, and may continue to increase, the extent to which we are subject to such U.S. and international information privacy and security regulations. In addition, due to the transition to remote working

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environments as a result of the COVID-19 pandemic, there is an elevated risk of such events occurring.

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

We depend on third-party service providers, including mortgage loan servicers and sub-servicers, for a variety of services related to our business.

We depend on a variety of services provided by third-party service providers related to our investments in MSR as well as for general operating purposes. For example, we rely on the mortgage servicers who service the mortgage loans underlying our MSR to, among other things, collect principal and interest payments on such mortgage loans and perform loss mitigation services in accordance with applicable laws and regulations. Mortgage servicers and other service providers, such as trustees, bond insurance providers, due diligence vendors and document custodians, may fail to perform or otherwise not perform in a manner that promotes our interests.

For example, any legislation or regulation intended to reduce or prevent foreclosures through, among other things, loan modifications may reduce the value of mortgage loans, including those underlying our MSR. Mortgage servicers may be required or otherwise incentivized by the Federal or state governments to pursue actions designed to assist mortgagors, such as loan modifications, forbearance plans and other actions intended to prevent foreclosure even if such loan modifications and other actions are not in the best interests of the beneficial owners of the mortgage loans. Similarly, legislation delaying the initiation or completion of foreclosure proceedings on specified types of residential mortgage loans or otherwise limiting the ability of mortgage servicers to take actions that may be essential to preserve the value of the mortgage loans may also reduce the value of mortgage loans underlying our MSR. Any such limitations are likely to cause delayed or reduced collections from mortgagors and generally increase servicing costs. As a consequence of the foregoing matters, our business, financial condition and results of operations may be adversely affected.

Our investments in residential whole loans subject us to servicing-related risks.

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

Any failure by servicers to service these mortgages and related real estate owned (“REO”) properties could negatively impact the value of these investments and our financial performance. In addition, while we have contracted, and will continue to contract, with unaffiliated servicing companies to carry out the actual servicing of the loans we purchase together with the related MSR (including all direct interface with the borrowers), we are nevertheless ultimately responsible, *vis-à-vis* the borrowers and state and federal regulators, for ensuring that the loans are serviced in accordance with the terms of the related notes and mortgages and applicable law and regulation. In light of the current regulatory environment, such exposure could be significant even though we might have contractual claims against our servicers for any failure to service the loans to the required standard.

A default by the mortgage servicer in its capacity as servicer and/or failure of the mortgage servicer to perform its obligations related to any MSR could result in a loss of value of servicing fees and/or excess servicing spread. Mortgage servicers are subject to extensive federal, state and local laws, regulations and administrative decisions and failure to comply with such regulations can expose the servicer to fines, damages and losses. In its capacity as servicer, mortgage servicers operate in a highly litigious industry that subject it to potential lawsuits related to billing and collections practices, modification protocols or foreclosure practices.

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

The performance of loans underlying our MSR related assets may be adversely affected by the performance of the related mortgage servicer.

The performance of the loans underlying our MSR related assets is subject to risks associated with inadequate or untimely servicing. If our mortgage servicers commit a material breach of their obligations as a servicer, we may be subject to damages if the breach is not cured within a specified period of time following notice. In addition, poor performance by a mortgage servicer may result in greater than expected delinquencies and foreclosures and losses on the mortgage loans underlying our MSR related assets. A substantial increase in our delinquency or foreclosure rate or the inability to process claims could adversely affect our ability to access the capital and secondary markets for our financing needs.

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

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

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

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

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

We are subject to reinvestment risk.

We 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. Conversely, increases in interest rates are generally accompanied by decreased prepayments of mortgage loans, which could reduce our capital available to reinvest into higher-yielding assets.

Competition may affect ability and pricing of our target 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 compete with a variety of institutional investors, including other REITs, specialty finance companies, public and private funds, government entities, commercial and investment banks, commercial finance and insurance companies and other financial institutions. Many of our competitors are substantially larger and have considerably greater financial, technical, technological, marketing and other resources than we do. Other REITs with investment objectives that overlap with ours may elect to raise significant amounts of capital, which may create additional competition for investment opportunities. Some competitors may have a lower cost of funds and access to

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funding sources that may not be available to us. Many of our competitors are not subject to the operating constraints associated with REIT compliance or maintenance of an exemption from the Investment Company Act. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, competition for investments in our target assets may lead to the price of such assets increasing, which may further limit our ability to generate desired returns. We cannot provide assurance that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations. Also, as a result of this competition, desirable investments in our target assets may be limited in the future and we may not be able to take advantage of attractive investment opportunities from time to time, as we can provide no assurance that we will be able to identify and make investments that are consistent with our investment objectives.

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

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

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

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

Some of our investments, including those related to non-prime loans, involve credit risk.

Our current investment strategy includes seeking growth in our residential credit business. The holder of a mortgage or mortgage-backed securities assumes the risk that the related borrowers may default on their obligations to make full and timely payments of principal and interest. Under our investment policy, we have the ability to acquire non-Agency mortgage-backed securities, residential whole loans, MSR and other investment assets of lower credit quality. In general, non-Agency mortgage-backed securities carry greater investment risk than Agency mortgage-backed securities because they are not guaranteed as to principal or interest by the U.S. Government, any federal agency or any federally chartered corporation. Non-investment grade, non-Agency securities tend to be less liquid, may have a higher risk of default and may be more difficult to value than investment grade bonds. Higher-than-expected rates of default and/or higher-than-expected loss severities on the mortgages underlying our non-Agency mortgage-backed securities, MSR or on our residential whole loan investments may adversely

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affect the value of those assets. Accordingly, defaults in the payment of principal and/or interest on our non-Agency mortgage-backed securities, residential whole loan investments, MSR and other investment assets of lower credit quality would likely result in our incurring losses of income from, and/or losses in market value relating to, these assets.

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

We face possible increased instances of business interruption associated with the effects of climate change and severe weather.

The physical effects of climate change could have a material adverse effect on our operations. To the extent that climate change impacts changes in weather patterns, our operations could experience disruptions. There can be no assurance that climate change and severe weather will not have a material adverse effect on our operations.

If we are unable to attract, motivate and retain qualified talent, including our key personnel, it could materially and adversely affect us.

Our success and our ability to manage anticipated future growth depend, in large part, upon the efforts of our highly-skilled employees, and particularly on our key personnel, including our executive officers. Our executive officers have extensive experience and strong reputations in the sectors in which we operate and have been instrumental in setting our strategic direction, operating our business, identifying, recruiting, and training our other key personnel, and arranging necessary financing. The departure of any of our executive officers or other key personnel, or our inability to attract, motivate and retain highly qualified employees at all levels of the firm in light of the intense competition for talent, could adversely affect our business, operating results or financial condition; diminish our investment opportunities; or weaken our relationships with lenders, business partners and industry personnel.

Other Risks

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;

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- actions by institutional stockholders or activist investors;
- speculation in the press or investment community;
- changes in our distribution policy;
- government action or regulation;
- general market and economic conditions;
- market dislocations related to the COVID-19 pandemic; and
- future sales of our shares of common stock or securities convertible into, or exchangeable or exercisable for, our shares of common stock.

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

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

We may change our policies without stockholder approval.

Our Board has established very broad investment guidelines that may be amended from time to time. Our Board and management determine all of our significant policies, including our investment, financing, capital and asset allocation and distribution policies. They may amend or revise these policies at any time without a vote of our stockholders, or otherwise initiate a change in asset allocation. 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.

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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.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we are involved in various claims and legal actions arising in the ordinary course of business. As of December 31, 2021, we were not party to any pending material legal proceedings.

ITEM 4. MINE SAFETY DISCLOSURES

None.

PART II

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

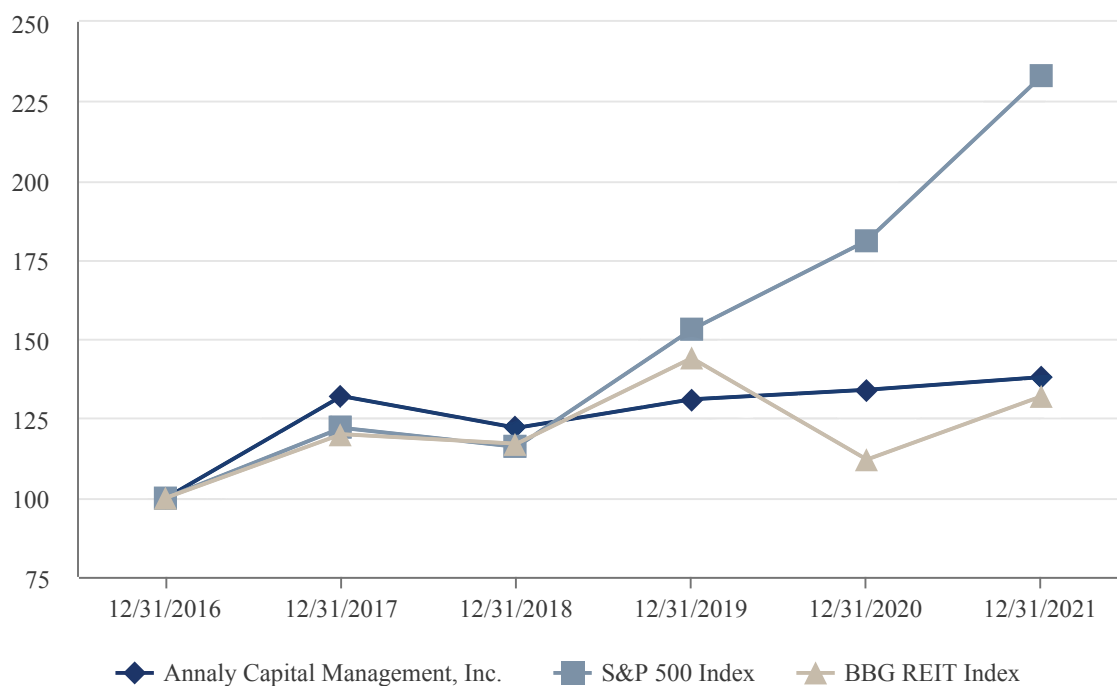
Our common stock began trading publicly on October 8, 1997 and is traded on the New York Stock Exchange under the trading symbol “NLY.” As of January 31, 2022, we had 1,460,366,871 shares of common stock issued and outstanding which were held by approximately 548,855 beneficial holders. The equity compensation plan information called for by Item 201(d) of Regulation S-K is set forth in Item 12 of Part III of this Form 10-K under the heading “Equity Compensation Plan Information.”

Dividends

We intend to pay quarterly dividends and to distribute to our stockholders all or substantially all of our taxable income in each year (subject to certain adjustments) consistent with the distribution requirements applicable to REITs. This will enable us to qualify for the tax benefits accorded to a REIT under the Code. We have not established a minimum dividend payment level and our ability to pay dividends may be adversely affected by factors beyond our control. In addition, unrealized changes in the estimated fair value of available-for-sale investments may have a direct effect on dividends. All distributions will be made at the discretion of our Board and will depend on our earnings, our financial condition, maintenance of our REIT status and such other factors as our Board may deem relevant from time to time. See also Item 1A. “Risk Factors.” No dividends can be paid on our common stock unless we have paid full cumulative dividends on our preferred stock. From the date of issuance of our preferred stock through December 31, 2021, we have paid full cumulative dividends on our preferred stock.

Share Performance Graph

The following graph and table set forth certain information comparing the yearly percentage change in cumulative total return on our common stock to the cumulative total return of the Standard & Poor’s Composite 500 stock Index or S&P 500 Index, and the Bloomberg Mortgage REIT Index, or BBG REIT index, an industry index of mortgage REITs. The comparison is for the five-year period ended December 31, 2021 and assumes the reinvestment of dividends. The graph and table assume that \$100 was invested in our common stock and the two other indices on the last trading day of the initial year shown in the graph. Upon written request we will provide stockholders with a list of the REITs included in the BBG REIT Index.

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	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021
Annaly Capital Management, Inc.	100	132	122	131	134	138
S&P 500 Index	100	122	116	153	181	233
BBG REIT Index	100	120	117	144	112	132

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

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

Share Repurchase

In January 2022, we announced that our Board authorized the repurchase of up to \$1.5 billion of our outstanding common shares through December 31, 2024. The new share repurchase program replaces our previous \$1.5 billion share repurchase program, which expired on December 31, 2021. No shares were repurchased with respect to this share repurchase program during the year ended December 31, 2021. As of December 31, 2021, the maximum dollar value of shares that may yet be purchased under this plan was \$1.5 billion.

	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid Per Share ⁽²⁾	The Total Number of Shares Purchased as Part of a Publicly Announced Repurchase Program	Maximum Dollar Value of Shares That May Yet Be Purchased Under The Plan ⁽²⁾
(dollars in thousands)				
December 1, 2021 - December 31, 2021	6,698	\$ 8.46	—	\$ 1,500,000
Total	6,698		—	\$ 1,500,000

⁽¹⁾ Represents shares acquired in satisfaction of the tax withholding obligations on stock-based awards granted under our equity incentive plans during the three months ended December 31, 2021.

⁽²⁾ Excludes commission costs.

Item 6. Selected Financial Data

ITEM 6. [Reserved]

Item 7. Management’s Discussion and Analysis

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

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Special Note Regarding Forward-Looking Statements

Certain statements contained in this annual report, and certain statements contained in our future filings with the the Securities and Exchange Commission (the “SEC” or the “Commission”), in our press releases or in our other public or stockholder communications contain or incorporate by reference certain forward-looking statements which are based on various assumptions (some of which are beyond our control) and may be identified by reference to a future period or periods or by the use of forward-looking terminology, such as “may,” “will,” “believe,” “expect,” “anticipate,” “continue,” or similar terms or variations on those terms or the negative of those terms. Actual results could differ materially from those set forth in forward-looking statements due to a variety of factors, including, but not limited to, risks and uncertainties related to the COVID-19 pandemic, including as related to adverse economic conditions on real estate-related assets and financing conditions (and our outlook for our business in light of these conditions, which is uncertain); 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; operational risks or risk management failures by us or critical third parties, including cybersecurity incidents; our ability to grow our residential credit business; our ability grow our middle market lending business; credit risks related to our investments in credit risk transfer securities, residential mortgage-backed securities and related residential mortgage credit assets, and corporate debt; risks related to investments in mortgage-servicing rights (“MSR”); our ability to consummate any contemplated investment opportunities; changes in government regulations or policy affecting our business; our ability to maintain our qualification as a REIT for U.S. federal income tax purposes; and our ability to maintain our exemption from registration under the Investment Company Act. For a discussion of the risks and uncertainties which could cause actual results to differ from those contained in the forward-looking statements, see “Risk Factors” in this annual report on Form 10-K and any subsequent quarterly reports on Form 10-Q or current reports on Form 8-K. We do not undertake, and specifically disclaim any obligation, to publicly release the result of any revisions which may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

All references to “Annaly,” “we,” “us,” or “our” mean Annaly Capital Management, Inc. and all entities owned by us, except where it is made clear that the term means only the parent company. Refer to the section titled “Glossary of Terms” located at the end of this Item 7 for definitions of commonly used terms in this annual report on Form 10-K.

This section of our Form 10-K generally discusses 2021 and 2020 items and year-to-year comparisons between 2021 and 2020. Discussions of 2019 items and year-to-year comparisons between 2020 and 2019 that are not included in this Form 10-K can be found in Part II, Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our annual report on Form 10-K for the year ended December 31, 2020.

Item 7. Management's Discussion and Analysis

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Item 7. Management’s Discussion and Analysis**Overview**

We are a leading diversified capital manager with investment strategies across mortgage finance and corporate middle market lending. Our principal business objective is to generate net income for distribution to our stockholders and optimize our returns through prudent management of our diversified investment strategies. We are an internally-managed Maryland corporation founded in 1997 that has elected to be taxed as a REIT. Our common stock is listed on the New York Stock Exchange under the symbol “NLY.”

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

For a full discussion of our business, refer to the section titled “Business Overview” of Part I, Item 1. “Business.”

Recent Developments*Sale of Commercial Real Estate Business*

On March 25, 2021, we announced that we entered into a definitive agreement to sell our Commercial Real Estate (“CRE”) business to Slate Asset Management L.P. and Slate Grocery REIT (together, “Slate”). The transaction represents the sale of substantially all of the assets that comprise our CRE business, which include equity interests, loan assets and associated liabilities and commercial mortgage-backed securities (other than commercial CRTs). Certain employees who primarily supported the CRE business joined Slate in connection with the sale. During the year ended December 31, 2021, the majority of assets held for sale and the associated liabilities were transferred to Slate with the remaining assets expected to be transferred by the end of the first quarter of 2022, subject to regulatory approvals. Revenues and expenses associated with the CRE business will be reflected in our results of operations and key financial metrics through closing. Refer to the “Sale of Commercial Real Estate Business” in the Notes to the Consolidated Financial Statements included in Item 15. “Exhibits, Financial Statement Schedules for additional information related to the transaction.

Business Environment and COVID-19

Financial markets have seen challenging conditions in recent months as the robust performance of the U.S. economy has made it evident that a withdrawal of pandemic era stimulus is imminent. Strong consumption and investment activity helped the U.S. economy record the best annual growth in nearly forty years in 2021. Meanwhile, the labor market has seen a rapid recovery as employers added 6.7 million jobs last year and the unemployment rate fell to 3.9 percent in December 2021. Stimulus measures have helped this rapid recovery, which has also spurred inflation to generational highs, as seen in December when the consumer price index reached 7.0% year-over-year. Although much of this increase in prices was initially considered temporary, ongoing elevated price gains across various categories of goods and services raise the risk inflation could persist for some time.

Accordingly, current macroeconomic conditions have led to a meaningful shift by the Federal Reserve (“Fed”), which now views less accommodative monetary policy as the primary way to ensure both parts of its mandate – full employment and stable prices – are being met. In November, the Fed announced a reduction of its asset purchases, which up to that point had been running at a monthly pace of \$120 billion per month across U.S. Treasuries and Agency MBS. At the December Federal Open Market Committee (“FOMC”) meeting, the Fed accelerated the slowdown in its asset purchases, in turn signaling a complete stop in March 2022. In addition, the Fed has signaled increases in the Federal Funds Target Rate (“Fed Funds Rate”) beginning in 2022 and an earlier introduction of balance sheet runoff to stem inflationary pressures. Interest rate markets now expect at least five 25 basis point rate hikes in 2022 and balance sheet runoff to begin in the summer months at a pace faster than the 2017 balance sheet runoff of \$50 billion per month. This notable shift in expectations has led to a tightening of financial conditions and an underperformance of assets most closely tied to monetary policy, best seen in the spread widening in Agency MBS in recent weeks.

In this environment, Annaly generated a negative tangible economic return of 2.4% during the fourth quarter and 0.0% for the full year 2021. Agency MBS spreads widened in light of an increasingly negative supply and demand picture, with the Fed turning from the largest net buyer of Treasuries and agency MBS to a potential seller in the near future. In anticipation of wider spreads, we managed the portfolio to decrease leverage and optimize our asset allocation, with total assets decreasing by approximately \$12.4 billion to \$89.2 billion during 2021. In conjunction, economic leverage declined from 6.2x to 5.7x, marking the lowest leverage level since 2015. The defensive leverage profile is further supported by low capital structure leverage and minimal asset-level structural leverage, as highly liquid Agency-MBS makes up the majority of Annaly’s portfolio. Moreover, the firm has substantial liquidity with \$9.3 billion of unencumbered assets, up \$600 million year-over-year. Finally, Annaly remains conservatively hedged to mitigate interest rate risk - with a year-end hedge ratio of 95% and expect to remain close to fully hedged for at least the near term. The portfolio continued to perform strongly, generating GAAP net income of \$1.60 for the year and earnings available for distribution of \$1.16 which exceeded our aggregate dividend of \$0.88 per share.

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Allocation to Annaly’s credit businesses increased by approximately 10 percentage points to 32% in 2021 as prospective returns and the strong U.S. economy continued to favor credit. This was a transformative year for Annaly marked by the sale of our Commercial Real Estate business, the launch of our Mortgage Servicing Rights platform and the expansion of our residential credit business. The collective impact of these initiatives has increased our presence throughout the residential housing finance market, enhancing our ability us to allocate capital effectively wherever returns are most attractive.

Our MSR business had a strong year with assets increasing over \$500 million throughout 2021 to \$645 million. We successfully established our MSR platform last year through the addition of key hires, procurement of strategic partnerships and buildout of the operations and infrastructure necessary to scale the business efficiently. As a result of these efforts, we have ended the year as the fifth largest bulk buyer of MSR.

Meanwhile, we continue to see significant growth from our Residential Credit group, which grew assets by nearly 90% last year. This growth was enhanced by the launch of our residential whole loan correspondent channel, which expanded our whole loan sourcing capabilities through the addition of new strategic partners and product offerings. Altogether, these efforts helped drive the group’s record \$4.5 billion in whole loan originations last year. Annaly’s subsidiary Onslow Bay remains a programmatic issuer of securitizations - pricing 13 whole loan securitizations totaling \$5.3 billion since the beginning of last year and was the fourth largest non-bank issuer of prime jumbo and expanded prime MBS over the last two years. With housing fundamentals expected to stay strong, residential credit should remain a key driver of our overall portfolio growth in the year ahead.

Lastly, our middle market lending platform continues to demonstrate its differentiated strategy with over \$1.5 billion in originations throughout 2021 and a strong credit profile with no loans on non-accrual. The close of Annaly’s inaugural private middle-market lending focused closed-end fund allowed for increased capital allocation flexibility to further scale the business and provides recurring fee revenue to the REIT. Notably, fund proceeds have already been deployed at approximately \$450 million of assets.

Earnings available for distribution is a non-GAAP financial measure. Refer to the “Non-GAAP Financial Measures” section for additional information, including reconciliations to its most directly comparable GAAP results.

Business Continuity

Our well-established Business Continuity Planning (“BCP”) was designed to ensure continued, effective operations through a variety of scenarios including natural disasters and disease pandemics. It identifies critical systems, processes, roles and third parties, and can be adjusted on a real-time basis to address situations as they arise.

The BCP is regularly updated and tested. Annual testing includes extensive, remote Disaster Recovery testing and tabletop exercise scenarios with management. Key tenets of the planning include active communication between our Crisis Response Team, which is comprised of senior leaders across a number of functions, and our internal and external stakeholders to afford efficient, thoughtful, effective responses to evolving emergency situations.

Historical tabletop exercises have included use of CDC Influenza Pandemic exercise materials. That exercise documented our response and possible impacts to a variety of scenarios, including those in which “shelter in place orders” were required and response/ impact assessments to those scenarios. Regular meetings were commenced to implement and review active internal and external communications planning. These exercises, along with regulatory and industry guidance, informed our staged response to the conditions created by COVID-19. In response to COVID-19, our employees largely worked remotely in the first half of 2021 and transitioned to a hybrid model in the second half of 2021 with employees returning to the office on a periodic basis following federal, state and local guidance. At the present, we expect employees to return to the office more regularly starting in the first quarter of 2022 subject to guidance from federal, state and local authorities. For additional information about our response to COVID-19, refer to the section titled “Human Capital” of Part I, Item 1. “Business.”

Economic Environment

The COVID-19 pandemic continued to provide meaningful challenges to the global economy in 2021. However, U.S. economic growth rebounded sharply as the development and deployment of vaccines and better COVID-19 treatment methods reduced the impact of the virus on economic activity. Combined with the provision of significant fiscal stimulus and easy monetary policy, consumption and investment activity rebounded sharply from their depressed levels immediately following the onset of the pandemic. After registering year-over-year real growth in U.S. gross domestic product (“GDP”) of 5.7% for 2021, marking the highest real output growth since 1984, real output levels now exceed aggregate output at the end of 2019 by 3.1%.

Of note, a large share of the growth has been driven by real goods consumption, which has risen 12.1% year-over-year in 2021 as consumers opted to spend increased amounts on cars, furniture, recreational goods and similar items. Services consumption, meanwhile, has seen improvements at a slower rate as COVID-19 restrictions have continued to limit travel and entertainment.

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Private investment activity, meanwhile, rose 7.7% year-over-year on improved activity in structures, equipment, and residential sectors.

In line with economic activity, the labor market has seen a meaningful improvement over the course of 2021, with employers hiring an aggregate 6.7 million workers, leading the unemployment rate to decline 2.8 percentage points. This marks one of the largest improvements in the labor market in at least 50 years. At the current level of 3.9 percent, the unemployment rate is below the Federal Reserve’s estimate of the non-accelerating inflation rate of unemployment (“NAIRU”) according to the latest Summary of Economic Projections published following the Federal Open Market Committee meeting held in December 2021. This suggests that meaningful further employment gains are likely only possible at higher rates of wage compensation, although wage gains have been robust in 2021 already. The closely tracked Employment Cost Index rose 4.0% year-over-year in the fourth quarter, up from 2.5% year-over-year in the fourth quarter of 2020. This marks one of the fastest accelerations in wage growth in recent years as workers demanded higher wages, particularly in the highly sought after, lower paid service sector. More broadly, the economy saw a record number of job openings in 2021 as demand for workers soared in the reopening economy. Unfortunately for many businesses, many workers have not reengaged in the labor market during the pandemic as the labor force participation rate – the share of people either working or actively looking for a job as share of the population – remains meaningfully below rates seen ahead of the pandemic. Although adverse demographic trends, such as an aging society, have put downward pressure on the labor force participation rate over a long period of time, the pandemic has accelerated this trend.

Inflation has been a major surprise in 2021. Although year-over-year changes in the Personal Consumption Expenditure Chain Price Index (“PCE”) measured 1.3% in December 2020, well below the Fed’s 2% target, headline PCE rose to 5.8% year-over-year in December 2021. The meaningful acceleration in inflation has been driven by higher inflation in consumer goods. For example, goods excluding foods and energy have contributed 18 basis points to the monthly changes in the consumer price index during 2021, meaningfully higher than the 0.2 basis points contribution to monthly changes in the period between 2016 and 2020. The sharp rise in goods prices has been driven by households, who are beneficiaries of healthy balance sheets and sharply rising asset and house prices. This has in turn led to strong demand for cars, furniture, recreational goods and similar items. Services inflation, meanwhile, has been more muted, though sectors that saw strong demand as the pandemic receded, such as travel, and shelter inflation have been increasing.

The Fed conducts monetary policy with a dual mandate: full employment and price stability. As the pandemic continued to impact the U.S. economy in meaningful ways, the Fed continued its easy monetary policy for much of the year in a successful attempt to reinvigorate the labor market following the sharp rise in unemployment in 2020. The target range for the Federal Funds rate was kept at 0.0% - 0.25% for all of 2021, while simultaneously purchasing assets at a pace of \$80 billion per month in Treasury securities and \$40 billion per month in agency MBS between January and October 2021. The Fed announced a slowdown in the pace of its asset purchases at the November Federal Open Market Committee meeting, effectively signaling a gradual end to the asset purchases.

During the year ended December 31, 2021, yields on the 10-year U.S. Treasury note rose by 60 bps primarily in the first half of the year as better economic prospects lead investors to reassess the level of interest rates. Given high levels of inflation, the vast majority of the repricing has been driving by inflation compensation, as investors require higher compensation in times when rising inflation erodes their bond market returns. Meanwhile, the mortgage basis, or the spread between the 30-year Agency MBS coupon and 10-year U.S. Treasury rate, widened gradually over the course of the year, ending the year 13 bps wider than at the end of 2020.

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

	As of December 31,		
	2021	2020	2019
30-Year mortgage current coupon	2.07%	1.34%	2.71%
Mortgage basis	56 bps	43 bps	79 bps
10-Year U.S. Treasury rate	1.51%	0.91%	1.92%
LIBOR			
1-Month	0.10%	0.14%	1.76%
6-Month	0.34%	0.26%	1.91%

Item 7. Management’s Discussion and Analysis***London Interbank Offered Rate (“LIBOR”) Transition Working Group***

The United Kingdom Financial Conduct Authority (“FCA”), which regulates LIBOR, announced that all LIBOR tenors relevant to us will cease to be published or will no longer be representative after June 30, 2023. The FCA's announcement coincided with the announcement of LIBOR's administrator, the ICE Benchmark Administration Limited (“IBA”), indicating that, as a result of not having access to input data necessary to calculate LIBOR tenors relevant to us on a representative basis after June 30, 2023, IBA would have to cease publication of such LIBOR tenors immediately after the last publication on June 30, 2023. These announcements mean that any of our LIBOR-based borrowings that extend beyond June 30, 2023 will need to be converted to a replacement rate.

We have established a cross-functional LIBOR transition committee to determine our transition plan and facilitate an orderly transition to alternative reference rates. Our plan includes steps to evaluate exposure; review contracts; assess impact to our business; process and technology and define a communication strategy with shareholders; regulators and other stakeholders. The committee also continues to engage with industry working groups and other market participants regarding the transition. We continue to remain on track with our LIBOR transition plan, which requires different solutions depending on the underlying asset or liability. Similar to the rest of the market, the bulk of our exposure is in derivatives contracts. Certain contracts, such as interest rate swaps, have an orderly market transition already in process, whereas other contracts, such as loan agreements, require bilateral amendments and adequate time left to resolve. The State of New York approved legislative solutions for contracts such as residential whole loans that are governed by New York state law, although more legislative work is needed at the federal level. We are supportive of the potential legislative solutions at the state and federal level. We are considering all available options with respect to our preferred stock, which include liability management actions such as tenders, calls, exchange offers, language amendments, changing the calculation agent, and/or allowing fallbacks to trigger. As of December 31, 2021, we had \$1.5 billion of USD LIBOR-linked preferred stock that may remain outstanding beyond the June 30, 2023 cessation date. See the risk factor titled “The discontinuation of LIBOR may affect our results” in Part I, Item 1A “Risk Factors” for additional information.

Results of Operations

The results of our operations are affected by various factors, many of which are beyond our control. Certain of such risks and uncertainties are described herein (see “Special Note Regarding Forward-Looking Statements” above) and in Part I, Item 1A. “Risk Factors”.

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

Refer to the “Non-GAAP Financial Measures” section for additional information.

Commencing with our financial results for the quarter ended June 30, 2021 and for subsequent reporting periods, we relabeled “Core Earnings (excluding PAA)” as “Earnings Available for Distribution” (“EAD”). Earnings Available for Distribution, which is a non-GAAP financial measure intended to supplement our financial results computed in accordance with GAAP, has replaced our prior presentation of Core Earnings (excluding PAA). In addition, Core Earnings (excluding PAA) results from prior reporting periods have been relabeled Earnings Available for Distribution. In line with evolving industry practices, we believe the term Earnings Available for Distribution more accurately reflects the principal purpose of the measure than the term Core Earnings (excluding PAA) and will serve as a useful indicator for investors in evaluating our performance and our ability to pay dividends.

The definition of Earnings Available for Distribution is identical to the definition of Core Earning (excluding PAA) from prior reporting periods. As such, Earnings Available for Distribution is defined as the sum of (a) economic net interest income, (b) TBA dollar roll income and CMBX coupon income, (c) realized amortization of MSR, (d) other income (loss) (excluding depreciation expense related to commercial real estate and amortization of intangibles, non-EAD income allocated to equity method investments and other non-EAD components of other income (loss)), (e) general and administrative expenses (excluding transaction expenses and non-recurring items) and (f) income taxes (excluding the income tax effect of non-EAD income (loss) items) and excludes (g) the premium amortization adjustment (“PAA”) representing the cumulative impact on prior periods, but not the current period, of quarter-over-quarter changes in estimated long-term prepayment speeds related to our Agency mortgage-backed securities.

Earnings Available for Distribution should not be considered a substitute for, or superior to, GAAP net income. Please refer to the “Non-GAAP Financial Measures” section for a detailed discussion of Earnings Available for Distribution.

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Beginning with the quarter ended June 30, 2021, we began classifying certain portfolio activity-related or volume-related expenses as Other income (loss) rather than Other general and administrative expenses in the Consolidated Statements of Comprehensive Income (Loss) to better reflect the nature of the items. As such, prior periods have been conformed to the current presentation. Refer to the "General and Administrative Expenses" section for additional information.

Net Income (Loss) Summary

The following table presents financial information related to our results of operations as of and for the years ended December 31, 2021, 2020 and 2019.

	As of and for the Years Ended December 31,		
	2021	2020	2019
	(dollars in thousands, except per share data)		
Interest income	\$ 1,983,036	\$ 2,229,625	\$ 3,787,297
Interest expense	249,243	899,112	2,784,875
Net interest income	1,733,793	1,330,513	1,002,422
Realized and unrealized gains (losses)	795,195	(2,062,824)	(3,011,127)
Other income (loss)	57,981	36,311	106,547
Less: Total general and administrative expenses	186,014	222,195	271,768
Income (loss) before income taxes	2,400,955	(918,195)	(2,173,926)
Income taxes	4,675	(28,423)	(10,835)
Net income (loss)	2,396,280	(889,772)	(2,163,091)
Less: Net income (loss) attributable to noncontrolling interests	6,384	1,391	(226)
Net income (loss) attributable to Annaly	2,389,896	(891,163)	(2,162,865)
Less: Dividends on preferred stock	107,532	142,036	136,576
Net income (loss) available (related) to common stockholders	\$ 2,282,364	\$ (1,033,199)	\$ (2,299,441)
Net income (loss) per share available (related) to common stockholders			
Basic	\$ 1.60	\$ (0.73)	\$ (1.60)
Diluted	\$ 1.60	\$ (0.73)	\$ (1.60)
Weighted average number of common shares outstanding			
Basic	1,427,426,079	1,414,659,439	1,434,912,682
Diluted	1,428,569,003	1,414,659,439	1,434,912,682
Other information			
Investment portfolio at period-end	\$ 74,792,041	\$ 86,403,446	\$ 127,402,106
Average total assets	\$ 81,925,499	\$ 99,663,704	\$ 123,202,411
Average equity	\$ 13,728,352	\$ 14,103,589	\$ 15,325,340
GAAP leverage at period-end ⁽¹⁾	4.7:1	5.1:1	7.1:1
GAAP capital ratio at period-end ⁽²⁾	17.2%	15.9 %	12.1 %
Annualized return on average total assets	2.92 %	(0.89)%	(1.76)%
Annualized return on average equity	17.45 %	(6.31)%	(14.11)%
Net interest margin ⁽³⁾	2.28 %	1.46 %	0.83 %
Average yield on interest earning assets ⁽⁴⁾	2.61 %	2.44 %	3.15 %
Average GAAP cost of interest bearing liabilities ⁽⁵⁾	0.37 %	1.09 %	2.57 %
Net interest spread	2.24 %	1.35 %	0.58 %
Weighted average experienced CPR for the period	23.7 %	20.2 %	12.7 %
Weighted average projected long-term CPR at period-end	12.7 %	16.4 %	13.9 %
Common stock book value per share	\$ 7.97	\$ 8.92	\$ 9.66
Non-GAAP metrics ⁽⁶⁾			
Interest income (excluding PAA)	\$ 2,040,194	\$ 2,645,069	\$ 4,042,191
Economic interest expense ⁽⁵⁾	\$ 525,385	\$ 1,106,989	\$ 2,433,500
Economic net interest income (excluding PAA)	\$ 1,514,809	\$ 1,538,080	\$ 1,608,691
Premium amortization adjustment cost (benefit)	\$ 57,158	\$ 415,444	\$ 254,894
Earnings available for distribution ⁽⁷⁾	\$ 1,768,391	\$ 1,696,167	\$ 1,575,396
Earnings available for distribution per common share	\$ 1.16	\$ 1.10	\$ 1.00
Annualized EAD return on average equity (excluding PAA)	12.90 %	12.03 %	10.28 %
Economic leverage at period-end ⁽¹⁾	5.7:1	6.2:1	7.2:1
Economic capital ratio at period-end ⁽²⁾	14.4 %	13.6 %	12.0 %
Net interest margin (excluding PAA) ⁽³⁾	2.02 %	1.74 %	1.32 %
Average yield on interest earning assets (excluding PAA) ⁽⁴⁾	2.68 %	2.90 %	3.36 %
Average economic cost of interest bearing liabilities ⁽⁵⁾	0.79 %	1.34 %	2.25 %
Net interest spread (excluding PAA)	1.89 %	1.56 %	1.11 %

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- ⁽¹⁾ GAAP leverage is computed as the sum of repurchase agreements, other secured financing, debt issued by securitization vehicles, participations issued and mortgages payable divided by total equity. Economic leverage is computed as the sum of recourse debt, cost basis of to-be-announced (“TBA”) and CMBX derivatives outstanding, and net forward purchases (sales) of investments divided by total equity. Recourse debt consists of repurchase agreements and other secured financing (excluding certain non-recourse credit facilities). Certain credit facilities (included within other secured financing), debt issued by securitization vehicles, participations issued, and mortgages payable are non-recourse to the Company and are excluded from economic leverage.
- ⁽²⁾ GAAP capital ratio is computed as total equity divided by total assets. Economic capital ratio is computed as total equity divided by total economic assets. Total economic assets include the implied market value of TBA derivatives and net of debt issued by securitization vehicles.
- ⁽³⁾ Net interest margin represents our interest income less interest expense divided by the average interest earning assets. Net interest margin (excluding PAA) represents the sum of our interest income (excluding PAA) plus TBA dollar roll income and CMBX coupon income less interest expense and the net interest component of interest rate swaps divided by the sum of average interest earning assets plus average outstanding TBA contract and CMBX balances.
- ⁽⁴⁾ Average yield on interest earning assets represents annualized interest income divided by average interest earning assets. Average interest earning assets reflects the average amortized cost of our investments during the period. Average yield on interest earning assets (excluding PAA) is calculated using annualized interest income (excluding PAA).
- ⁽⁵⁾ Average GAAP cost of interest bearing liabilities represents annualized interest expense divided by average interest bearing liabilities. Average interest bearing liabilities reflects the average balances during the period. Average economic cost of interest bearing liabilities represents annualized economic interest expense divided by average interest bearing liabilities. Economic interest expense is comprised of GAAP interest expense and the net interest component of interest rate swaps.
- ⁽⁶⁾ Represents a non-GAAP financial measure. Refer to the “Non-GAAP Financial Measures” section for additional information.
- ⁽⁷⁾ Excludes dividends on preferred stock.

GAAP

Net income (loss) was \$2.4 billion, which includes \$6.4 million attributable to noncontrolling interests, or \$1.60 per average basic common share, for the year ended December 31, 2021 compared to (\$0.9) billion, which includes \$1.4 million attributable to noncontrolling interests, or (\$0.73) per average basic common share, for the same period in 2020. We attribute the majority of the change in net income (loss) to favorable changes in unrealized gains (losses) on interest rate swaps, realized gains (losses) on termination or maturity of interest rate swaps, net unrealized gains (losses) on instruments measured at fair value through earnings and net interest income, partially offset by unfavorable changes in Net gains (losses) on disposal of investments and other and Net gains (losses) on other derivatives and financial instruments. Net unrealized gains (losses) on interest rate swaps was \$2.2 billion for the year ended December 31, 2021 compared to (\$0.9) billion for the same period in 2020. Realized losses on termination or maturity of interest rate swaps was (\$1.2) billion for the year ended December 31, 2021 compared to (\$1.9) billion for the same period in 2020. Net unrealized gains (losses) on instruments measured at fair value through earnings for the year ended December 31, 2021 was \$183.7 million compared to (\$303.0) million for the same period in 2020. Net interest income for the year ended December 31, 2021 was \$1.7 billion compared to \$1.3 billion for the same period in 2020. Net gains (losses) on disposal of investments and other was (\$62.7) million for the year ended December 31, 2021 compared to \$661.5 million for the same period in 2020. Net gains (losses) on other derivatives and financial instruments was \$121.7 million for the year ended December 31, 2021 compared to \$756.3 million for the same period in 2020. Refer to the section titled “Realized and Unrealized Gains (Losses)” located within this Item 7 for additional information related to these changes.

Non-GAAP

Earnings available for distribution were \$1.8 billion, or \$1.16 per average common share, for the year ended December 31, 2021, compared to \$1.7 billion, or \$1.10 per average common share, for the same period in 2020. The changes in earnings available for distribution for the year ended December 31, 2021 compared to the same period in 2020 were primarily due to lower interest expense from lower borrowing rates and average interest bearing liabilities, and higher TBA dollar roll income, partially offset by lower coupon income resulting from lower average interest earning assets and an unfavorable change in the net interest component of interest rate swaps.

Non-GAAP Financial Measures

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

- earnings available for distribution (“EAD”);
- earnings available for distribution attributable to common stockholders;
- earnings available for distribution per average common share;
- annualized EAD return on average equity;
- economic leverage;
- economic capital ratio;
- interest income (excluding PAA);
- economic interest expense;

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- economic net interest income (excluding PAA);
- average yield on interest earning assets (excluding PAA);
- average economic cost of interest bearing liabilities;
- net interest margin (excluding PAA); and
- net interest spread (excluding PAA).

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

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

Earnings available for distribution, earnings available for distribution attributable to common stockholders, earnings available for distribution per average common share and annualized EAD return on average equity

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

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

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

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

	For the Years Ended December 31,		
	2021	2020	2019
	(dollars in thousands, except per share data)		
GAAP net income (loss)	\$ 2,396,280	\$ (889,772)	\$ (2,163,091)
Net income (loss) attributable to noncontrolling interests	6,384	1,391	(226)
Net income (loss) attributable to Annaly	2,389,896	(891,163)	(2,162,865)
Adjustments to exclude reported realized and unrealized (gains) losses			
Realized (gains) losses on termination or maturity of interest rate swaps	1,236,349	1,917,628	1,442,964
Unrealized (gains) losses on interest rate swaps	(2,198,486)	904,532	1,210,276
Net (gains) losses on disposal of investments and other	62,705	(661,513)	47,944
Net (gains) losses on other derivatives and financial instruments	(121,735)	(756,305)	680,770
Net unrealized (gains) losses on instruments measured at fair value through earnings	(183,663)	303,024	(36,021)
Loan loss provision ⁽¹⁾	(148,632)	151,188	16,569
Business divestiture-related (gains) losses	278,559	—	—
Other adjustments			
Depreciation expense related to commercial real estate and amortization of intangibles ⁽²⁾	15,225	39,108	40,058
Non-EAD (income) loss allocated to equity method investments ⁽³⁾	(10,930)	22,493	21,385
Transaction expenses and non-recurring items ⁽⁴⁾	5,579	11,293	19,284
Income tax effect of non-EAD income (loss) items	13,325	(17,603)	(5,961)
TBA dollar roll income and CMBX coupon income ⁽⁵⁾	445,768	355,547	123,818
MSR amortization ⁽⁶⁾	(72,727)	(97,506)	(77,719)
Plus:			
Premium amortization adjustment cost (benefit)	57,158	415,444	254,894
Earnings available for distribution⁽⁷⁾	1,768,391	1,696,167	1,575,396
Dividends on preferred stock	107,532	142,036	136,576
Earnings available for distribution attributable to common stockholders⁽⁷⁾	\$ 1,660,859	\$ 1,554,131	\$ 1,438,820
GAAP net income (loss) per average common share	\$ 1.60	\$ (0.73)	\$ (1.60)
Earnings available for distribution per average common share⁽⁷⁾	\$ 1.16	\$ 1.10	\$ 1.00
GAAP return (loss) on average equity	17.45 %	(6.31)%	(14.11)%
EAD return on average equity (excluding PAA)⁽⁷⁾	12.90 %	12.03 %	10.28 %

⁽¹⁾ Includes (\$3.6) million and \$3.6 million of loss provision (reversal) on the Company's unfunded loan commitments for the years ended December 31, 2021 and 2020, respectively, which is reported in Other income (loss) in the Consolidated Statements of Comprehensive Income (Loss).

⁽²⁾ Includes depreciation and amortization expense related to equity method investments.

⁽³⁾ The Company excludes non-EAD (income) loss allocated to equity method investments, which represents the unrealized (gains) losses allocated to equity interests in a portfolio of MSR, which is a component of Other income (loss).

⁽⁴⁾ Includes costs incurred in connection with securitizations of residential whole loans. The year ended December 31, 2020 also includes costs incurred in connection with the Company's management internalization, the CEO search process and a securitization of Agency mortgage-backed securities. The year ended December 31, 2019 also includes costs incurred in connection with the securitization of commercial loans and Agency mortgage-backed securities.

⁽⁵⁾ TBA dollar roll income and CMBX coupon income each represent a component of Net gains (losses) on other derivatives and financial instruments. CMBX coupon income totaled \$5.2 million, \$5.8 million and \$4.6 million for the years ended December 31, 2021, 2020 and 2019, respectively.

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

⁽⁷⁾ Represents a non-GAAP financial measure. Refer to disclosures within this section above for additional information on non-GAAP financial measures.

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

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TBA dollar roll transactions are accounted for under GAAP as a series of derivatives transactions. The fair value of TBA derivatives is based on methods similar to those used to value Agency mortgage-backed securities. We record TBA derivatives at fair value on our Consolidated Statements of Financial Condition and recognize periodic changes in fair value in Net gains (losses) on other derivatives and financial instruments in our Consolidated Statements of Comprehensive Income (Loss), which includes both unrealized and realized gains and losses on derivatives (excluding interest rate swaps).

TBA dollar roll income is calculated as the difference in price between two TBA contracts with the same terms but different settlement dates multiplied by the notional amount of the TBA contract. Although accounted for as derivatives, TBA dollar rolls capture the economic equivalent of net interest income, or carry, on the underlying Agency mortgage-backed security (interest income less an implied cost of financing). TBA dollar roll income is reported as a component of Net gains (losses) on other derivatives and financial instruments in the Consolidated Statements of Comprehensive Income (Loss).

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

Premium Amortization Expense

In accordance with GAAP, we amortize or accrete premiums or discounts into interest income for our Agency mortgage-backed securities, excluding interest-only securities, multifamily and reverse mortgages, taking into account estimates of future principal prepayments in the calculation of the effective yield. We recalculate the effective yield as differences between anticipated and actual prepayments occur. Using third party model and market information to project future cash flows and expected remaining lives of securities, the effective interest rate determined for each security is applied as if it had been in place from the date of the security’s acquisition. The amortized cost of the security is then adjusted to the amount that would have existed had the new effective yield been applied since the acquisition date. The adjustment to amortized cost is offset with a charge or credit to interest income. Changes in interest rates and other market factors will impact prepayment speed projections and the amount of premium amortization recognized in any given period.

Our GAAP metrics include the unadjusted impact of amortization and accretion associated with this method. Certain of our non-GAAP metrics exclude the effect of the PAA, which quantifies the component of premium amortization representing the cumulative impact on prior periods, but not the current period, of quarter-over-quarter changes in estimated long-term Constant Prepayment Rate (“CPR”).

The following table illustrates the impact of the PAA on premium amortization expense for our Residential Securities portfolio and residential securities transferred or pledged to securitization vehicles, for the periods presented:

	For the Years Ended December 31,		
	2021	2020	2019
	(dollars in thousands)		
Premium amortization expense	\$ 760,818	\$ 1,375,461	\$ 1,113,786
Less: PAA cost (benefit)	57,158	415,444	254,894
Premium amortization expense (excluding PAA)	\$ 703,660	\$ 960,017	\$ 858,892

Economic leverage and economic capital ratios

We use capital coupled with borrowed funds to invest primarily in real estate related investments, earning the spread between the yield on our assets and the cost of our borrowings and hedging activities. Our capital structure is designed to offer an efficient complement of funding sources to generate positive risk-adjusted returns for our stockholders while maintaining appropriate liquidity to support our business and meet our financial obligations under periods of market stress. To maintain our desired capital profile, we utilize a mix of debt and equity funding. Debt funding may include the use of repurchase agreements, loans, securitizations, participations issued, lines of credit, asset backed lending facilities, corporate bond issuance, convertible bonds, mortgages payable or other liabilities. Equity capital primarily consists of common and preferred stock.

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Our economic leverage ratio is computed as the sum of recourse debt, cost basis of TBA and CMBX derivatives outstanding, and net forward purchases (sales) of investments divided by total equity. Recourse debt consists of repurchase agreements and other secured financing (excluding certain non-recourse credit facilities). Certain credit facilities (included within other secured financing), debt issued by securitization vehicles, participations issued, and mortgages payable are non-recourse to us and are excluded from economic leverage.

The following table presents a reconciliation of GAAP debt to economic debt for purposes of calculating our economic leverage ratio for the periods presented:

	As of	
	December 31, 2021	December 31, 2020
Economic leverage ratio reconciliation	(dollars in thousands)	
Repurchase agreements	\$ 54,769,643	\$ 64,825,239
Other secured financing	903,255	917,876
Debt issued by securitization vehicles	5,155,633	5,652,982
Participations issued	1,049,066	39,198
Mortgages payable	—	426,256
Debt included in liabilities of disposal group held for sale	112,144	—
Total GAAP debt	\$ 61,989,741	\$ 71,861,551
Less Non-Recourse Debt:		
Credit facilities ⁽¹⁾	(903,255)	(887,455)
Debt issued by securitization vehicles	(5,155,633)	(5,652,982)
Participations issued	(1,049,066)	(39,198)
Mortgages payable	—	(426,256)
Non-recourse debt included in liabilities of disposal group held for sale	(112,144)	—
Total recourse debt	\$ 54,769,643	\$ 64,855,660
Plus / (Less):		
Cost basis of TBA and CMBX derivatives	20,690,768	20,780,913
Payable for unsettled trades	147,908	884,069
Receivable for unsettled trades	(2,656)	(15,912)
Economic debt ⁽²⁾	\$ 75,605,663	\$ 86,504,730
Total equity	\$ 13,195,325	\$ 14,021,796
Economic leverage ratio ⁽²⁾	5.7:1	6.2:1

⁽¹⁾ Included in Other secured financing in the Consolidated Statements of Financial Condition.

⁽²⁾ Represents a non-GAAP financial measure. Refer to the disclosure within this section above for additional information

The following table presents a reconciliation of GAAP total assets to economic total assets for purposes of calculating our economic capital ratio for the periods presented:

	As of	
	December 31, 2021	December 31, 2020
Economic capital ratio reconciliation	(dollars in thousands)	
Total GAAP assets	\$ 76,764,064	\$ 88,455,103
Less:		
Gross unrealized gains on TBA derivatives ⁽¹⁾	(52,693)	(96,109)
Debt issued by securitization vehicles ⁽²⁾	(5,155,633)	(5,652,982)
Plus:		
Implied market value of TBA derivatives	20,338,633	20,373,197
Total economic assets ⁽³⁾	\$ 91,894,371	\$ 103,079,209
Total equity	\$ 13,195,325	\$ 14,021,796
Economic capital ratio ⁽³⁾⁽⁴⁾	14.4%	13.6%

⁽¹⁾ Included in Derivative assets in the Consolidated Statements of Financial Condition.

⁽²⁾ Includes debt issued by securitization vehicles reported in Liabilities of disposal group held for sale in the Consolidated Statements of Financial Condition.

⁽³⁾ Represents a non-GAAP financial measure. Refer to the disclosure within this section above for additional information on non-GAAP financial measures.

⁽⁴⁾ Economic capital ratio is computed as total equity divided by total economic assets.

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Item 7. Management's Discussion and Analysis*Interest income (excluding PAA), economic interest expense and economic net interest income (excluding PAA)*

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

Economic interest expense is comprised of GAAP interest expense and the net interest component of interest rate swaps. We use interest rate swaps to manage our exposure to changing interest rates on repurchase agreements by economically hedging cash flows associated with these borrowings. Accordingly, adding the net interest component of interest rate swaps to interest expense, as computed in accordance with GAAP, reflects the total contractual interest expense and thus, provides investors with additional information about the cost of our financing strategy. We may use market agreed coupon ("MAC") interest rate swaps in which we may receive or make a payment at the time of entering into such interest rate swap to compensate for the off-market nature of such interest rate swap. In accordance with GAAP, upfront payments associated with MAC interest rate swaps are not reflected in the net interest component of interest rate swaps in the Consolidated Statements of Comprehensive Income (Loss). We did not enter into any MAC interest rate swaps during the years ended December 31, 2021 and December 31, 2020.

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

The following tables present a reconciliation of GAAP interest income and interest expense to non-GAAP interest income (excluding PAA), economic interest expense and economic net interest income (excluding PAA), respectively, for the periods presented:

Interest Income (excluding PAA)

	GAAP Interest Income	PAA Cost (Benefit)	Interest Income (excluding PAA) ⁽¹⁾
For the years ended	(dollars in thousands)		
December 31, 2021	\$ 1,983,036	\$ 57,158	\$ 2,040,194
December 31, 2020	\$ 2,229,625	\$ 415,444	\$ 2,645,069
December 31, 2019	\$ 3,787,297	\$ 254,894	\$ 4,042,191

⁽¹⁾ Represents a non-GAAP financial measure. Refer to disclosures within this section above for additional information on non-GAAP financial measures.

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

	GAAP Interest Expense	Add: Net Interest Component of Interest Rate Swaps	Economic Interest Expense ⁽¹⁾	GAAP Net Interest Income	Less: Net Interest Component of Interest Rate Swaps	Economic Net Interest Income ⁽¹⁾	Add: PAA Cost (Benefit)	Economic Net Interest Income (excluding PAA) ⁽¹⁾
For the years ended	(dollars in thousands)							
December 31, 2021	\$ 249,243	\$ 276,142	\$ 525,385	\$ 1,733,793	\$ 276,142	\$ 1,457,651	\$ 57,158	\$ 1,514,809
December 31, 2020	\$ 899,112	\$ 207,877	\$ 1,106,989	\$ 1,330,513	\$ 207,877	\$ 1,122,636	\$ 415,444	\$ 1,538,080
December 31, 2019	\$ 2,784,875	\$ (351,375)	\$ 2,433,500	\$ 1,002,422	\$ (351,375)	\$ 1,353,797	\$ 254,894	\$ 1,608,691

⁽¹⁾ Represents a non-GAAP financial measure. Refer to disclosures within this section above for additional information on non-GAAP financial measures.

Experienced and Projected Long-Term CPR

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

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experienced CPR and weighted average projected long-term CPR on our Agency mortgage-backed securities portfolio as of and for the periods presented.

	Experienced CPR ⁽¹⁾	Long-term CPR ⁽²⁾
For the years ended		
December 31, 2021	23.7%	12.7%
December 31, 2020	20.2%	16.4%
December 31, 2019	12.7%	13.9%

⁽¹⁾ For the years ended December 31, 2021, 2020 and 2019, respectively.

⁽²⁾ At December 31, 2021, 2020 and 2019, respectively.

Average Yield on Interest Earning Assets (excluding PAA), Net Interest Spread (excluding PAA), Net Interest Margin (excluding PAA) and Average Economic Cost of Interest Bearing Liabilities

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

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

Net Interest Spread (excluding PAA)

	Average Interest Earning Assets ⁽¹⁾	Interest Income (excluding PAA) ⁽²⁾	Average Yield on Interest Earning Assets (excluding PAA) ⁽²⁾	Average Interest Bearing Liabilities	Economic Interest Expense ⁽²⁾⁽³⁾	Average Economic Cost of Interest Bearing Liabilities ⁽²⁾⁽³⁾	Economic Net Interest Income (excluding PAA) ⁽²⁾	Net Interest Spread (excluding PAA) ⁽²⁾
For the years ended								
(dollars in thousands)								
December 31, 2021	\$76,079,589	\$2,040,194	2.68%	\$66,607,057	\$525,385	0.79%	\$1,514,809	1.89 %
December 31, 2020	\$91,198,821	\$2,645,069	2.90%	\$82,719,182	\$1,106,989	1.34%	\$1,538,080	1.56 %
December 31, 2019	\$120,389,507	\$4,042,191	3.36%	\$108,355,575	\$2,433,500	2.25%	\$1,608,691	1.11 %

⁽¹⁾ Based on amortized cost.

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

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

Net Interest Margin (excluding PAA)

	Interest Income (excluding PAA) ⁽¹⁾	TBA Dollar Roll and CMBX Coupon Income ⁽²⁾	Economic Interest Expense ⁽¹⁾	Subtotal	Average Interest Earnings Assets	Average TBA Contract and CMBX Balances	Subtotal	Net Interest Margin (excluding PAA) ⁽¹⁾
For the years ended								
(dollars in thousands)								
December 31, 2021	\$2,040,194	445,768	(525,385)	\$1,960,577	\$76,079,589	21,131,344	\$97,210,933	2.02%
December 31, 2020	\$2,645,069	355,547	(1,106,989)	\$1,893,627	\$91,198,821	17,442,023	\$108,640,844	1.74%
December 31, 2019	\$4,042,191	123,818	(2,433,500)	\$1,732,509	\$120,389,507	10,953,117	\$131,342,624	1.32%

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

⁽²⁾ TBA dollar roll income and CMBX coupon income each represent a component of Net gains (losses) on other derivatives and financial instruments. CMBX coupon income totaled \$5.2 million, \$5.8 million and \$4.6 million for the years ended December 31, 2021, 2020 and 2019, respectively.

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

Average Economic Cost of Interest Bearing Liabilities

	Average Interest Bearing Liabilities	Interest Bearing Liabilities at Period End	Economic Interest Expense ⁽¹⁾⁽²⁾	Average Economic Cost of Interest Bearing Liabilities ⁽²⁾	Average One-Month LIBOR	Average Six-Month LIBOR	Average One-Month LIBOR Relative to Average Six-Month LIBOR	Average Economic Cost of Interest Bearing Liabilities Relative to Average One-Month LIBOR	Average Economic Cost of Interest Bearing Liabilities Relative to Average Six-Month LIBOR
For the years ended	(dollars in thousands)								
December 31, 2021	\$ 66,607,057	\$ 61,877,597	\$ 525,385	0.79%	0.10%	0.20%	(0.10%)	0.69%	0.59%
December 31, 2020	\$ 82,719,182	\$ 71,435,295	\$ 1,106,989	1.34%	0.52%	0.69%	(0.17%)	0.82%	0.65%
December 31, 2019	\$ 108,355,575	\$ 111,819,229	\$ 2,433,500	2.25%	2.22%	2.32%	(0.10%)	0.03%	(0.07%)

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

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

2021 Compared with 2020

Economic interest expense decreased by \$581.6 million for the year ended December 31, 2021 compared to the same period in 2020. The change was due to lower borrowing rates and decreases in average interest bearing liabilities, partially offset by the change in the net interest component of interest rate swaps, which was (\$276.1) million for the year ended December 31, 2021 compared to (\$207.9) million for the same period in 2020.

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

At December 31, 2021 and 2020, the majority of our debt represented repurchase agreements and other secured financing arrangements collateralized by a pledge of our Residential Securities, residential mortgage loans, and corporate loans. All of our Residential Securities are currently accepted as collateral for these borrowings. However, we limit our borrowings, and thus our potential asset growth, in order to maintain unused borrowing capacity and maintain the liquidity and strength of our balance sheet.

Realized and Unrealized Gains (Losses)

Realized and unrealized gains (losses) is comprised of net gains (losses) on interest rate swaps, net gains (losses) on disposal of investments and other, net gains (losses) on other derivatives and financial instruments, and net unrealized gains (losses) on instruments measured at fair value through earnings. These components of realized and unrealized gains (losses) for the years ended December 31, 2021, 2020 and 2019 were as follows:

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	For the Years Ended December 31,		
	2021	2020	2019
	(dollars in thousands)		
Net gains (losses) on interest rate swaps ⁽¹⁾	\$ 685,995	\$ (3,030,037)	\$ (2,301,865)
Net gains (losses) on disposal of investments and other	(62,705)	661,513	(47,944)
Net gains (losses) on other derivatives and financial instruments	121,735	756,305	(680,770)
Net unrealized gains (losses) on instruments measured at fair value through earnings	183,663	(303,024)	36,021
Loan loss provision	145,066	(147,581)	(16,569)
Business divestiture-related gains (losses)	(278,559)	—	—
Total	\$ 795,195	\$ (2,062,824)	\$ (3,011,127)

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

2021 Compared with 2020

Net gains (losses) on interest rate swaps for the year ended December 31, 2021 was \$686.0 million compared to (\$3.0) billion for the same period in 2020, primarily attributable to favorable changes in unrealized gains (losses) on interest rate swaps and realized gains (losses) on termination or maturity of interest rate swaps. Unrealized gains (losses) on interest rate swaps was \$2.2 billion for the year ended December 31, 2021, reflecting a rise in forward interest rates during the period, compared to (\$0.9) billion for the same period in 2020, reflecting a decline in forward interest rates during the earlier period. Realized gains (losses) on termination or maturity of interest rate swaps was (\$1.2) billion resulting from the termination or maturity of interest rate swaps with a notional amount of \$30.9 billion for the year ended December 31, 2021 compared to (\$1.9) billion resulting from the termination or maturity of interest rate swaps with a notional amount of \$104.1 billion for the same period in 2020.

Net gains (losses) on disposal of investments and other was (\$62.7) million for the year ended December 31, 2021 compared with \$661.5 million for the same period in 2020. For the year ended December 31, 2021, we disposed of Residential Securities with a carrying value of \$11.5 billion for an aggregate net loss of (\$3.1) million. For the same period in 2020, we disposed of Residential Securities with a carrying value of \$51.8 billion for an aggregate net gain of \$637.0 million and we recognized a realized gain of \$104.8 million as a result of deconsolidating a multifamily VIE.

Net gains (losses) on other derivatives and financial instruments was \$121.7 million for the year ended December 31, 2021 compared to \$756.3 million for the same period in 2020. The change in net gains (losses) on other derivatives and financial instruments was primarily comprised of changes in net gains (losses) on TBA derivatives, which was (\$401.7) million for the year ended December 31, 2021 compared to \$985.4 million for the same period in 2020, and interest rate swaptions, which was (\$76.0) million for the year ended December 31, 2021 compared to \$58.0 million for the same period in 2020, partially offset by the change in net gains (losses) on futures contracts, which was \$582.3 million for the year ended December 31, 2021 compared to (\$280.1) million for the same period in 2020.

Net unrealized gains (losses) on instruments measured at fair value through earnings was \$183.7 million for the year ended December 31, 2021 compared to (\$303.0) million for the same period in 2020, primarily due to favorable changes in unrealized gains (losses) on MSR, including Interests in MSR, of \$275.8 million, securitized commercial loans of \$268.4 million, residential securitized debt of consolidated VIEs of \$88.5 million and securitized debt of consolidated VIEs backed by Agency mortgage-backed securities of \$59.7 million, partially offset by an unfavorable change in commercial securitized debt of consolidated VIEs of (\$211.6) million for the year ended December 31, 2021 compared to the same period in 2020.

For the year ended December 31, 2021, a loan loss (provision) reversal of \$145.1 million was recorded on commercial mortgage and corporate loans compared to (\$147.6) million for the same period in 2020. Refer to the “Loans” Note located within Item 15 for additional information related to these loan loss provisions.

For the year ended December 31, 2021, a business divestiture-related gain (loss) of (\$278.6) million was recorded on the sale of our CRE business to Slate. There was no comparative transaction for the same period in 2020. Refer to the “Sale of Commercial Real Estate Business” Note located within Item 15 for additional information related to the transaction.

Other Income (Loss)

Other income (loss) includes certain revenues and costs associated with our investments in commercial real estate, including rental income and recoveries, operating costs as well as depreciation and amortization expense, net servicing income on MSR, brokerage and commission fees, due diligence costs and securitization expenses. We also report in Other income (loss) items

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whose amounts, either individually or in the aggregate, would not, in the opinion of management, be meaningful to readers of the financial statements. Given the nature of certain components of this line item, balances may fluctuate from period to period.

General and Administrative Expenses

General and administrative ("G&A") expenses consist of compensation and other expenses. Prior to the closing of the Company's management internalization transaction (the "Internalization") on June 30, 2020, G&A also consisted of management fees paid to Annaly Management Company LLC (our "Former Manager"). Beginning with the quarter ended June 30, 2021, we began classifying certain portfolio activity- or volume-related expenses (including but not limited to brokerage and commission fees, due diligence costs and securitization expenses) as Other income (loss) rather than Other general and administrative expenses in the Consolidated Statements of Comprehensive Income (Loss) to better reflect the nature of the items. As such, prior periods have been conformed to the current presentation with Other general and administrative expenses for the three months ended March 31, 2021 adjusted downward by \$1.8 million and for the years ended December 31, 2020 and 2019 adjusted downward by \$17.0 million and \$29.9 million, respectively. The following table shows our total G&A expenses as compared to average total assets and average equity for the periods presented.

G&A Expenses and Operating Expense Ratios

	Total G&A Expenses ⁽¹⁾	Total G&A Expenses/ Average Assets ⁽¹⁾	Total G&A Expenses/ Average Equity ⁽¹⁾
For the years ended	(dollars in thousands)		
December 31, 2021	\$ 186,014	0.23 %	1.35 %
December 31, 2020	\$ 222,195	0.22 %	1.58 %
December 31, 2019	\$ 271,768	0.22 %	1.77 %

⁽¹⁾ Includes \$2.9 million of costs incurred in connection with the Company's management internalization and costs incurred in connection with the CEO search process for the year ended December 31, 2020. Excluding these transaction costs, G&A expenses as a percentage of average total assets and as a percentage of average equity were 0.22% and 1.55%, respectively, for the year ended December 31, 2020.

2021 Compared with 2020

G&A expenses decreased \$36.2 million to \$186.0 million for the year ended December 31, 2021 compared to the same period in 2020. The change was largely attributable to lower professional fees, lower compensation costs due to the sale of the CRE business and cost savings generated from the Company's management internalization, which closed on June 30, 2020, during the year ended December 31, 2021 compared with the same period in 2020.

Return on Average Equity

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

Components of Annualized Return on Average Equity

	Economic Net Interest Income/ Average Equity ⁽¹⁾	Realized and Unrealized Gains and Losses/ Average Equity ⁽²⁾	Other Income (Loss)/Average Equity	G&A Expenses/ Average Equity	Income Taxes/ Average Equity	Return on Average Equity
For the years ended						
December 31, 2021	10.62 %	7.80%	0.42 %	(1.35%)	(0.04%)	17.45%
December 31, 2020	7.96 %	(13.15%)	0.26 %	(1.58%)	0.20%	(6.31%)
December 31, 2019	8.83 %	(21.93%)	0.69%	(1.77%)	0.07%	(14.11%)

⁽¹⁾ Economic net interest income includes the net interest component of interest rate swaps.

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

Unrealized Gains and Losses - Available-for-Sale Investments

With our available-for-sale accounting treatment on our Agency mortgage-backed securities, which represent the largest portion of assets on balance sheet, as well as certain commercial mortgage-backed securities, unrealized fluctuations in market values of assets do not impact our GAAP net income (loss) but rather are reflected on our balance sheet by changing the carrying value

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of the asset and stockholders' equity under accumulated other comprehensive income (loss). As a result of this fair value accounting treatment, our book value and book value per share are likely to fluctuate far more than if we used amortized cost accounting. As a result, comparisons with companies that use amortized cost accounting for some or all of their balance sheet may not be meaningful.

The table below shows cumulative unrealized gains and losses on our available-for-sale investments reflected in the Consolidated Statements of Financial Condition.

	December 31, 2021	December 31, 2020
	(dollars in thousands)	
Unrealized gain	\$ 1,444,434	\$ 3,378,523
Unrealized loss	(486,024)	(4,188)
Accumulated other comprehensive income (loss)	\$ 958,410	\$ 3,374,335

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

The fair value of these securities being less than amortized cost at December 31, 2021 is solely due to market conditions and not the quality of the assets. Substantially all of the Agency mortgage-backed securities have an actual or implied credit rating that is the same as the U.S. government. The investments do not require an allowance for credit losses because we currently have the ability and intent to hold the investments to maturity or for a period of time sufficient for a forecasted market price recovery up to or beyond the cost of the investments, and it is not more likely than not that we will be required to sell the investments before recovery of the amortized cost bases, which may be maturity. Also, we are guaranteed payment of the principal and interest amounts of the securities by the respective issuing Agency.

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Total assets were \$76.8 billion and \$88.5 billion at December 31, 2021 and 2020, respectively. The change was primarily due to a decrease in Agency mortgage-backed securities, including assets transferred or pledged to securitization vehicles, of \$13.6 billion and commercial real estate debt investments, including assets transferred or pledged to securitization vehicles, of \$1.7 billion, partially offset by an increase in residential mortgage loans, including assets transferred or pledged to securitization vehicles, of \$4.2 billion. Our portfolio composition, net equity allocation and debt-to-net equity ratio by asset class were as follows at December 31, 2021:

	Residential		Commercial		
	Agency MBS and MSR	Residential Credit ⁽¹⁾	Commercial Real Estate ⁽²⁾	Corporate Debt	Total
(dollars in thousands)					
Assets					
Fair value/carrying value	\$61,729,356	\$10,369,051	\$ 692,169	\$ 1,968,991	\$ 74,759,567
Implied market value of derivatives ⁽³⁾	20,338,633	—	400,579	—	20,739,212
Debt					
Repurchase agreements	52,724,923	1,658,817	385,903	—	54,769,643
Implied cost basis of derivatives ⁽³⁾	20,289,856	—	400,912	—	20,690,768
Other secured financing	—	—	—	903,255	903,255
Debt issued by securitization vehicles	548,567	4,607,066	—	—	5,155,633
Participations issued	—	1,049,066	—	—	1,049,066
Net forward purchases	142,164	3,088	—	—	145,252
Liabilities of disposal group held for sale	—	—	112,144	—	112,144
Other					
Other assets / liabilities ⁽⁴⁾	474,740	7,878	4,024	35,665	522,307
Net equity allocated	\$ 8,837,219	\$ 3,058,892	\$ 197,813	\$ 1,101,401	\$ 13,195,325
Net equity allocated (%)	68 %	24 %	— %	8 %	100 %
Debt/net equity ratio	6.0:1	2.4:1	2.0:1	0.8:1	4.7:1 ⁽⁵⁾

⁽¹⁾ Fair value/carrying includes residential loans held for sale.

⁽²⁾ Fair value/carrying includes commercial real estate investments held for sale.

⁽³⁾ Derivatives include TBA contracts under Agency MBS and MSR and CMBX balances under Commercial Real Estate.

⁽⁴⁾ Dedicated capital allocations assume capital related to held for sale assets will be redeployed within the Agency business line.

⁽⁵⁾ Represents the debt/net equity ratio as determined using amounts on the Consolidated Statements of Financial Condition. Excludes liabilities of disposal group held for sale.

Residential Securities

Substantially all of our Agency mortgage-backed securities at December 31, 2021 and December 31, 2020 were backed by single-family residential mortgage loans and were secured with a first lien position on the underlying single-family properties. Our mortgage-backed securities were largely Freddie Mac, Fannie Mae or Ginnie Mae pass through certificates or CMOs, which have an actual or implied credit rating that is the same as that of the U.S. government. 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, 2021 and December 31, 2020 we had on our Consolidated Statements of Financial Condition a total of \$77.7 million and \$88.3 million, respectively, of unamortized discount (which is the difference between the remaining principal value and current amortized cost of our Residential Securities, excluding securities transferred or pledged to securitization vehicles, acquired at a price below principal value) and a total of \$3.8 billion and \$4.0 billion, respectively, of unamortized premium (which is the difference between the remaining principal value and the current amortized cost of our Residential Securities, excluding securities transferred or pledged to securitization vehicles, acquired at a price above principal value).

The weighted average experienced prepayment speed on our Agency mortgage-backed securities portfolio for the years ended December 31, 2021 and 2020 was 23.7% and 20.2%, respectively. The weighted average projected long-term prepayment speed on our Agency mortgage-backed securities portfolio as of December 31, 2021 and 2020 was 12.7% and 16.4%, 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

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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 following tables present our Residential Securities, excluding securities transferred or pledged to securitization vehicles, that were carried at fair value at December 31, 2021 and December 31, 2020.

Agency	December 31, 2021		December 31, 2020	
	Estimated Fair Value			
(dollars in thousands)				
Fixed-rate pass-through	\$	58,296,605	\$	71,302,578
Adjustable-rate pass-through		321,273		477,516
CMO		121,698		149,767
Interest-only		293,914		421,909
Multifamily		1,452,713		1,663,507
Reverse mortgages		39,402		51,782
Total agency securities	\$	60,525,605	\$	74,067,059
Residential credit				
Credit risk transfer	\$	936,228	\$	532,403
Alt-A		69,487		80,328
Prime		275,441		182,749
Subprime		163,076		188,433
NPL/RPL		983,438		475,847
Prime jumbo (>= 2010 vintage)		171,894		44,835
Total residential credit securities	\$	2,599,564	\$	1,504,595
Total Residential Securities	\$	63,125,169	\$	75,571,654

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The following table summarizes certain characteristics of our Residential Securities (excluding interest-only mortgage-backed securities) and interest-only mortgage-backed securities, excluding securities transferred or pledged to securitization vehicles, at December 31, 2021 and December 31, 2020.

	December 31, 2021	December 31, 2020
Residential Securities ⁽¹⁾	(dollars in thousands)	
Principal amount	\$ 58,676,833	\$ 68,521,464
Net premium	2,973,471	3,280,439
Amortized cost	61,650,304	71,801,903
Amortized cost / principal amount	105.07 %	104.79 %
Carrying value	62,577,398	75,116,466
Carrying value / principal amount	106.65 %	109.62 %
Weighted average coupon rate	3.35 %	3.58 %
Weighted average yield	2.69 %	2.86 %
Adjustable-rate Residential Securities ⁽¹⁾		
Principal amount	\$ 1,476,250	\$ 1,257,966
Weighted average coupon rate	2.81 %	3.20 %
Weighted average yield	6.57 %	5.20 %
Weighted average term to next adjustment ⁽²⁾	11 Months	15 Months
Weighted average lifetime cap ⁽³⁾	0.18 %	0.41 %
Principal amount at period end as % of total residential securities	2.52 %	1.84 %
Fixed-rate Residential Securities ⁽¹⁾		
Principal amount	\$ 57,200,583	\$ 67,263,498
Weighted average coupon rate	3.36 %	3.58 %
Weighted average yield	2.60 %	2.82 %
Principal amount at period end as % of total residential securities	97.48 %	98.16 %
Interest-only Residential Securities		
Notional amount	\$ 6,583,768	\$ 3,642,143
Net premium	720,235	602,790
Amortized cost	720,235	602,790
Amortized cost / notional amount	10.94 %	16.55 %
Carrying value	547,771	455,188
Carrying value / notional amount	8.32 %	12.50 %
Weighted average coupon rate	2.01 %	3.99 %
Weighted average yield	NM	NM

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

⁽²⁾ Excludes non-Agency mortgage-backed securities and CRT securities.

⁽³⁾ Excludes non-Agency mortgage-backed securities and CRT securities as this attribute is not applicable to these asset classes.

NM Not meaningful.

The following tables summarize certain characteristics of our Residential Credit portfolio at December 31, 2021.

Product	Total	Payment Structure		Investment Characteristics			
		Senior	Subordinate	Coupon	Credit Enhancement	60+ Delinquencies	3M VPR ⁽¹⁾
(dollars in thousands)							
Credit risk transfer	\$ 936,228	\$ —	\$ 936,228	3.15 %	3.04 %	3.47 %	35.35 %
Alt-A	69,487	14,090	55,397	3.33 %	7.89 %	10.77 %	26.10 %
Prime	275,441	46,820	228,621	3.89 %	8.27 %	3.23 %	18.53 %
Subprime	163,076	89,391	73,685	2.14 %	21.34 %	12.79 %	15.29 %
Re-performing loan securitizations	612,742	273,041	339,701	3.53 %	26.57 %	24.30 %	12.49 %
Non-performing loan securitizations	370,696	352,027	18,669	2.27 %	31.57 %	68.98 %	6.14 %
Prime jumbo (>=2010 vintage)	171,894	663	171,231	3.64 %	3.16 %	3.93 %	8.58 %
Total/weighted average ⁽²⁾	\$2,599,564	\$ 776,032	\$ 1,823,532	3.16 %	14.55 %	18.56 %	23.04 %

⁽¹⁾ Represents the 3 month voluntary prepayment rate ("VPR"). Excludes the impact of interest-only securities.

⁽²⁾ Total investment characteristics exclude the impact of interest-only securities.

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Product	Bond Coupon				Estimated Fair Value
	ARM	Fixed	Floater	Interest-Only	
	(dollars in thousands)				
Credit risk transfer	\$ —	\$ —	\$ 936,223	\$ 5	\$ 936,228
Alt-A	4,960	54,517	10,010	—	69,487
Prime	30,977	234,840	9,341	283	275,441
Subprime	6,039	65,940	90,925	172	163,076
Re-performing loan securitizations	—	612,742	—	—	612,742
Non-performing loan securitizations	—	370,696	—	—	370,696
Prime jumbo (>=2010 vintage)	—	109,883	61,348	663	171,894
Total	\$ 41,976	\$ 1,448,618	\$ 1,107,847	\$ 1,123	\$ 2,599,564

Contractual Obligations

The following table summarizes the effect on our liquidity and cash flows from contractual obligations at December 31, 2021. The table does not include the effect of net interest rate payments on our interest rate swap agreements and excludes assets and liabilities of the disposal group held for sale. The net swap payments will fluctuate based on monthly changes in the receive rate. At December 31, 2021, the interest rate swaps had a net fair value of (\$0.7) billion.

	Within One Year	One to Three Years	Three to Five Years	More than Five Years	Total
	(dollars in thousands)				
Repurchase agreements	\$ 54,769,643	\$ —	\$ —	\$ —	\$ 54,769,643
Interest expense on repurchase agreements ⁽¹⁾	17,981	—	—	—	17,981
Other secured financing	—	—	903,255	—	903,255
Interest expense on other secured financing ⁽¹⁾	25,804	51,679	38,762	—	116,245
Debt issued by securitization vehicles (principal)	—	—	—	5,098,785	5,098,785
Interest expense on debt issued by securitization vehicles	117,089	234,178	234,178	3,150,591	3,736,036
Participations issued (principal)	—	—	—	1,022,188	1,022,188
Interest expense on participations issued	31,603	63,207	63,207	805,788	963,805
Long-term operating lease obligations	3,862	7,724	2,895	—	14,481
Total	\$ 54,965,982	\$ 356,788	\$ 1,242,297	\$ 10,077,352	\$ 66,642,419

⁽¹⁾ Interest expense on repurchase agreements and other secured financing calculated based on rates at December 31, 2021.

In the coming periods, we expect to continue to finance our Residential Securities in a manner that is largely consistent with our current operations via repurchase agreements. We may use securitization structures, credit facilities, or other term financing structures to finance certain of our assets. During the year ended December 31, 2021, we received \$18.7 billion from principal repayments and \$11.5 billion in cash from disposal of Residential Securities. During the year ended December 31, 2020, we received \$19.6 billion from principal repayments and \$52.6 billion in cash from disposal of Residential Securities.

Off-Balance Sheet Arrangements

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

We have limited future funding commitments related to certain of our unconsolidated joint ventures. In addition, we have provided customary non-recourse carve-out and environmental guarantees (or underlying indemnities with respect thereto) with respect to mortgage loans held by subsidiaries of these unconsolidated joint ventures. We believe that the likelihood of making any payments under these guarantees is remote, and have not accrued a related liability at December 31, 2021.

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

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regardless of the market environment. Our capital policy defines the parameters and principles supporting a comprehensive capital management practice.

The major risks impacting capital are capital, liquidity and funding risk, investment/market risk, credit risk, counterparty risk, operational risk and compliance, regulatory and legal risk. For further discussion of the risks we are subject to, please see Part I, Item 1A. “Risk Factors” of this annual report on Form 10-K.

Capital requirements are based on maintaining levels above approved thresholds, ensuring the quality of our capital appropriately reflects our asset mix, market and funding structure. In the event we fall short of our internal thresholds, we will consider appropriate actions which may include asset sales, changes in asset mix, reductions in asset purchases or originations, issuance of capital or other capital enhancing or risk reduction strategies.

Stockholders’ Equity

The following table provides a summary of total stockholders’ equity at December 31, 2021 and 2020:

	December 31, 2021	December 31, 2020
Stockholders’ equity	(dollars in thousands)	
6.95% Series F fixed-to-floating rate cumulative redeemable preferred stock	696,910	696,910
6.50% Series G fixed-to-floating rate cumulative redeemable preferred stock	411,335	411,335
6.75% Series I fixed-to-floating rate cumulative redeemable preferred stock	428,324	428,324
Common stock	14,597	13,982
Additional paid-in capital	20,313,832	19,750,818
Accumulated other comprehensive income (loss)	958,410	3,374,335
Accumulated deficit	(9,653,582)	(10,667,388)
Total stockholders’ equity	\$ 13,169,826	\$ 14,008,316

Capital Stock**Common Stock**

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

	For the Years Ended	
	December 31, 2021	December 31, 2020
	(dollars in thousands)	
Shares issued through direct purchase and dividend reinvestment program	—	166,000
Amount raised from direct purchase and dividend reinvestment program	\$ —	\$ 1,175

In June 2019, we announced that our Board authorized the repurchase of up to \$1.5 billion of our outstanding shares of common stock, which expired on December 31, 2020 (the “2019 - 2020 Repurchase Program”). In December 2020, we announced that our Board authorized the repurchase of up to \$1.5 billion of our outstanding common shares, which expired on December 31, 2021 (the “2021 Share Repurchase Program”). In January 2022, we announced that our Board authorized the repurchase of up to \$1.5 billion of our outstanding shares of common stock through December 31, 2024 (the “Current Share Repurchase Program”). The Current Share Repurchase Program replaced the 2021 Share Repurchase Program, which had replaced the 2019 - 2020 Share Repurchase Program.

During the year ended December 31, 2021, no shares were repurchased under the 2021 Share Repurchase Program. During the year ended December 31, 2020, we repurchased 32.4 million shares of our common stock for an aggregate amount of \$208.9 million, excluding commission costs, respectively. All common shares purchased were part of a publicly announced plans in open-market transactions.

In January 2018, the Company entered into separate Distribution Agency Agreements (as amended and restated on August 6, 2021 and August 6, 2020, collectively, the “Sales Agreements”) with each of Wells Fargo Securities, LLC, BofA Securities, Inc. (formerly known as Merrill Lynch, Pierce, Fenner & Smith, Incorporated), Barclays Capital Inc., Citigroup Global Markets Inc., Credit Suisse Securities (USA) LLC, Goldman Sachs & Co. LLC, J.P. Morgan Securities LLC, Keefe, Bruyette & Woods, Inc., RBC Capital Markets, LLC and UBS Securities LLC (the “Sales Agents”). The Company may offer and sell shares of its common stock, having an aggregate offering price of up to \$1.5 billion, from time to time through any of the Sales Agents.

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During the years ended December 31, 2021, we issued 60.9 million shares of common stock for proceeds of \$552.4 million, net of commissions and fees, under the at-the-market sales program. No shares were issued under the at-the-market sales program during the year ended December 31, 2020.

Preferred Stock

During the year ended December 31, 2020, the Company redeemed all 18.4 million of its issued and outstanding shares of 7.50% Series D Cumulative Redeemable Preferred Stock (“Series D Preferred Stock”) for \$460.0 million. The cash redemption amount for each share of Series D Preferred Stock was \$25.00.

Leverage and Capital

We believe that it is prudent to maintain conservative GAAP leverage ratios and economic leverage ratios as there may be continued volatility in the mortgage and credit markets. Our capital policy governs our capital and leverage position including setting limits. Based on the guidelines, we generally expect to maintain an economic leverage ratio of less than 10:1. Our actual economic leverage ratio varies from time to time based upon various factors, including our 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 GAAP leverage ratio at December 31, 2021 and 2020 was 4.7:1 and 5.1:1, respectively. Our economic leverage ratio, which is computed as the sum of Recourse Debt, cost basis of TBA and CMBX derivatives outstanding, and net forward purchases (sales) of investments divided by total equity was 5.7:1 and 6.2:1, at December 31, 2021 and 2020, respectively. Our GAAP capital ratio at December 31, 2021 and 2020 was 17.2% and 15.9%, respectively. Our economic capital ratio, which represents our ratio of stockholders’ equity to total economic assets (inclusive of the implied total market value of TBA derivatives and net of debt issued by securitization vehicles), was 14.4% and 13.6% at December 31, 2021 and 2020, respectively. Economic leverage ratio and economic capital ratio are non-GAAP financial measures. Refer to the “Non-GAAP Financial Measures” section for additional information, including reconciliations to their most directly comparable GAAP results.

Risk Management

For more information on COVID-19, including actions we have taken in response, please refer to the section titled “Business Environment and COVID-19” within this Item 7.

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

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

Risk Appetite

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

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

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Risk Parameter	Description
Portfolio Composition	We will maintain a portfolio comprised of target assets approved by our Board and in accordance with our capital allocation policy.
Leverage	We generally expect to maintain an economic leverage ratio no greater than 10:1 considerate of our overall capital allocation framework.
Liquidity Risk	We will seek to maintain an unencumbered asset portfolio sufficient to meet our liquidity needs under adverse market conditions.
Interest Rate Risk	We will seek to manage interest rate risk to protect the portfolio from adverse rate movements utilizing derivative instruments targeting both income and capital preservation.
Credit Risk	We will seek to manage credit risk by making investments which conform within our specific investment policy parameters and optimize risk-adjusted returns.
Capital Preservation	We will seek to protect our capital base through disciplined risk management practices.
Operational	We will seek to limit impacts to our business through disciplined operational risk management practices addressing areas including but not limited to, management of key third party relationships (i.e. originators, sub-servicers), human capital management, cybersecurity and technology related matters, business continuity and financial reporting risk.
Compliance, Regulatory and Legal	We will seek to comply with regulatory requirements needed to maintain our REIT status and our exemption from registration under the Investment Company Act and the licenses and approvals of our regulated and licensed subsidiaries.

Governance

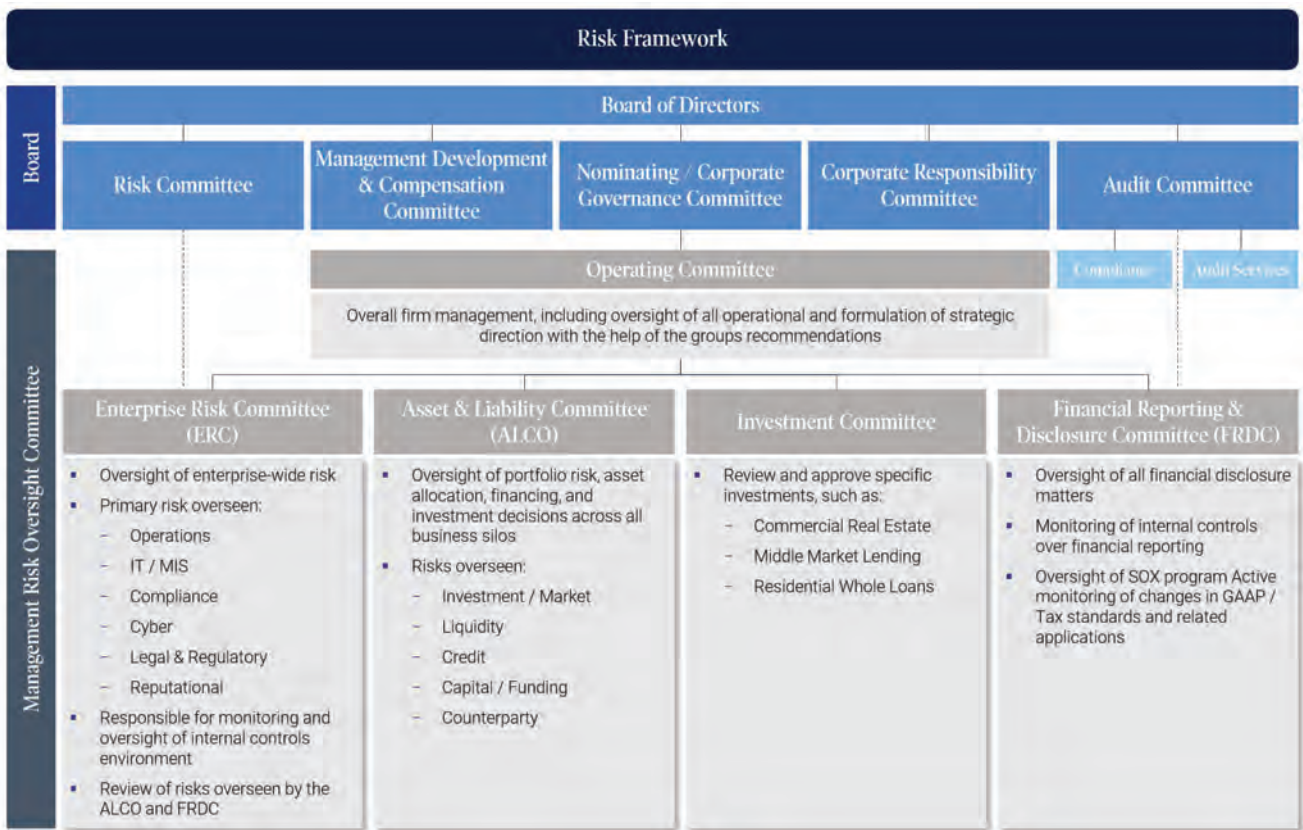
Risk management begins with our Board, through the review and oversight of the risk management framework, and executive management, through the ongoing formulation of risk management practices and related execution in managing risk. The Board exercises its oversight of risk management primarily through the Board Risk Committee (“BRC”) and Board Audit Committee (“BAC”) with support from the other Board Committees. The BRC is responsible for oversight of our risk governance structure, risk management (operational and market risk) and risk assessment guidelines and policies and our risk appetite. The BAC is responsible for oversight of the quality and integrity of our accounting, internal controls and financial reporting practices, including independent auditor selection, evaluation and review, and oversight of the internal audit function. The Management Development and Compensation Committee is responsible for oversight of risk related to our compensation policies and practices and other human capital matters such as succession and culture. The Corporate Responsibility Committee assists the Board in its oversight of any matters that may present reputational or ESG risk to us, and the Nominating/Corporate Governance Committee assists the Board in its oversight of our corporate governance framework and the annual self-evaluation of the Board.

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

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

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

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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
Capital, Liquidity and Funding Risk	Risk to earnings, capital or business resulting from our inability to meet our obligations when they come due without incurring unacceptable losses because of inability to liquidate assets or obtain adequate funding.
Investment/Market Risk	Risk to earnings, capital or business resulting in the decline in value of our assets or an increase in the costs of financing caused by changes in market variables, such as interest rates, which affect the values of investment securities and other investment instruments.
Credit Risk	Risk to earnings, capital or business resulting from an obligor’s failure to meet the terms of any contract or otherwise failure to perform as agreed. This risk is present in lending and investing activities.
Counterparty Risk	Risk to earnings, capital or business resulting from a counterparty’s failure to meet the terms of any contract or otherwise failure to perform as agreed. This risk is present in funding, hedging and investing activities.
Operational Risk	Risk to earnings, capital, reputation or business arising from inadequate or failed internal processes or systems (including business continuity planning), human factors or external events. This risk also applies to our use of proprietary and third party models, software vendors and data providers, and oversight of third-party service providers such as sub-servicers, due diligence firms etc.
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.

Item 7. Management's Discussion and Analysis***Capital, Liquidity and Funding Risk Management***

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

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

Funding

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

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

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

To reduce our liquidity risk we maintain a laddered approach to our repurchase agreements. At December 31, 2021 and December 31, 2020, the weighted average days to maturity was 52 days and 64 days, respectively.

Our repurchase agreements generally provide that in the event of a margin call we must provide additional securities or cash on the same business day that a margin call is made. Should prepayment speeds on the mortgages underlying our Agency and Residential mortgage-backed securities and/or market interest rates or other factors move suddenly and cause declines in the market value of assets posted as collateral, resulting margin calls may cause an adverse change in our liquidity position.

At December 31, 2021, we had total financial assets and cash pledged against existing liabilities of \$60.4 billion. The weighted average haircut was approximately 3% on repurchase agreements. The quality and character of the Residential Securities that we pledge as collateral under the repurchase agreements and interest rate swaps did not materially change at December 31, 2021 compared to the same period in 2020, 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, 2021.

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The following table 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
(dollars in thousands)				
For the three months ended				
December 31, 2021	\$ 56,977,019	\$ 54,769,643	\$ 39,247	\$ —
September 30, 2021	57,504,986	55,475,420	44,964	—
June 30, 2021	62,440,803	60,221,067	42,581	—
March 31, 2021	65,461,539	61,202,477	143,395	—
December 31, 2020	65,528,297	64,825,239	210,484	—
September 30, 2020	67,542,187	64,633,447	286,792	—
June 30, 2020	68,468,813	67,163,598	183,423	—
March 31, 2020	96,756,341	72,580,183	461,123	—
December 31, 2019	102,760,107	101,740,728	1,006,487	—

The following table provides information on our repurchase agreements and other secured financing by maturity date at December 31, 2021. The weighted average remaining maturity on our repurchase agreements and other secured financing was 78 days at December 31, 2021:

	December 31, 2021		
	Principal Balance	Weighted Average Rate	% of Total
(dollars in thousands)			
1 day	\$ —	— %	— %
2 to 29 days	27,013,475	0.14 %	48.5 %
30 to 59 days	10,212,453	0.19 %	18.3 %
60 to 89 days	6,377,347	0.17 %	11.5 %
90 to 119 days	4,824,918	0.15 %	8.7 %
Over 120 days ⁽¹⁾	7,244,705	0.59 %	13.0 %
Total	\$ 55,672,898	0.21 %	100.0 %

⁽¹⁾ Approximately 2% of the total repurchase agreements and other secured financing had a remaining maturity over 1 year.

The table below presents our outstanding debt balances and associated weighted average rates and days to maturity at December 31, 2021:

	Principal Balance	Weighted Average Rate		Weighted Average Days to Maturity ⁽¹⁾
		As of Period End	For the Quarter	
(dollars in thousands)				
Repurchase agreements	\$ 54,769,643	0.17 %	0.16 %	52
Other secured financing ⁽²⁾	903,255	2.86 %	3.50 %	1,644
Debt issued by securitization vehicles ⁽³⁾	5,098,785	2.23 %	2.06 %	11,474
Participations issued ⁽³⁾	1,022,188	3.09 %	3.17 %	11,131
Total indebtedness	\$ 61,793,871			

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

⁽²⁾ Includes financing under credit facilities.

⁽³⁾ Non-recourse to Annaly.

Item 7. Management's Discussion and Analysis*Excess Liquidity*

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

Assets are considered encumbered if pledged as collateral against an existing liability, and therefore are no longer available to support additional funding. An asset is considered unencumbered if it has not been pledged or securitized. The following table also provides the carrying amount of our encumbered and unencumbered financial assets at December 31, 2021:

	Encumbered Assets	Unencumbered Assets	Total
(dollars in thousands)			
Financial assets			
Cash and cash equivalents	\$ 1,222,505	\$ 119,585	\$ 1,342,090
Investments, at carrying value ⁽¹⁾			
Agency mortgage-backed securities ⁽²⁾	55,933,623	5,086,790	61,020,413
Credit risk transfer securities	134,317	801,911	936,228
Non-agency mortgage-backed securities	778,792	884,544	1,663,336
Commercial mortgage-backed securities	418,588	111,917	530,505
Residential mortgage loans ⁽²⁾	6,622,577	1,145,930	7,768,507
MSR	—	511,080	511,080
Interests in MSR	—	69,316	69,316
Corporate debt, held for investment	1,463,480	505,511	1,968,991
Other assets ⁽³⁾	—	81,748	81,748
Total financial assets	\$ 66,573,882	\$ 9,318,332	\$ 75,892,214

⁽¹⁾ The amounts reflected in the table above are on a settlement date basis and may differ from the total positions reported on the Consolidated Statements of Financial Condition.

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

⁽³⁾ Includes commercial real estate investments held for sale and interests in certain joint ventures.

We maintain liquid assets in order to satisfy our current and future obligations in normal and stressed operating environments. These are held as the primary means of liquidity risk mitigation. The composition of our liquid assets is also considered and is subject to certain parameters. The composition is monitored for concentration risk and asset type. We believe the assets we consider liquid can be readily converted into cash, through liquidation or by being used as collateral in financing arrangements (including as additional collateral to support existing financial arrangements). Our balance sheet also generates liquidity on an on-going basis through mortgage principal and interest repayments and net earnings held prior to payment of dividends. The following table presents our liquid assets as a percentage of total assets at December 31, 2021:

	Carrying Value ⁽¹⁾
(dollars in thousands)	
Liquid assets	
Cash and cash equivalents	\$ 1,342,090
Residential Securities ⁽²⁾⁽³⁾	63,029,932
Commercial mortgage-backed securities	530,505
Residential mortgage loans ⁽⁴⁾	2,272,072
Corporate debt, held for investment ⁽⁵⁾	1,615,502
Total liquid assets	\$ 68,790,101
Percentage of liquid assets to carrying amount of encumbered and unencumbered financial assets ⁽⁶⁾	98.60 %

⁽¹⁾ Carrying value approximates the market value of assets. The assets listed in this table include \$60.4 billion of assets that have been pledged as collateral against existing liabilities at December 31, 2021. Please refer to the Encumbered and Unencumbered Assets table for related information.

⁽²⁾ The amounts reflected in the table above are on a settlement date basis and may differ from the total positions reported on the Consolidated Statements of Financial Condition.

⁽³⁾ Excludes securitized Agency mortgage-backed securities of consolidated VIEs carried at fair value of \$0.6 billion.

⁽⁴⁾ Excludes securitized residential mortgage loans transferred or pledged to consolidated VIEs carried at fair value of \$5.5 billion.

⁽⁵⁾ Excludes unpledged second lien loans.

⁽⁶⁾ Denominator is computed based on the carrying amount of encumbered and unencumbered financial assets, excluding assets transferred or pledged to securitization vehicles and certain assets of disposal group held for sale of \$6.1 billion.

Item 7. Management’s Discussion and Analysis*Maturity Profile*

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

With respect to each maturity bucket, our maturity gap is considered negative when the amount of maturing liabilities exceeds the amount of maturing assets. A negative gap increases our liquidity risk as we must enter into future liabilities. Our interest rate sensitivity gap is the difference between interest earning assets and interest bearing liabilities maturing or re-pricing within a given time period. Unlike the calculation of maturity gap, interest rate sensitivity gap includes the effect of our interest rate swaps. A gap is considered positive when the amount of interest-rate sensitive assets exceeds the amount of interest-rate sensitive liabilities. A gap is considered negative when the amount of interest-rate sensitive liabilities exceeds interest-rate sensitive assets. During a period of rising interest rates, a negative gap would tend to adversely affect net interest income, while a positive gap would tend to result in an increase in net interest income. During a period of falling interest rates, a negative gap would tend to result in an increase in net interest income, while a positive gap would tend to affect net interest income adversely. Because different types of assets and liabilities with the same or similar maturities may react differently to changes in overall market rates or conditions, changes in interest rates may affect net interest income positively or negatively even if assets and liabilities were perfectly matched in each maturity category. The amount of assets and liabilities utilized to compute our interest rate sensitivity gap was determined in accordance with the contractual terms of the assets and liabilities, except that adjustable-rate loans and securities are included in the period in which their interest rates are first scheduled to adjust and not in the period in which they mature. The effects of interest rate swaps, whereby we generally pay a fixed rate and receive a floating rate and effectively lock in our financing costs for a longer term, are also reflected in our interest rate sensitivity gap.

The interest rate sensitivity of our assets and liabilities, excluding assets and liabilities of the disposal group held for sale and corporate loans held for sale, in the following table at December 31, 2021 could vary substantially based on actual prepayment experience.

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	Less than 3 Months	3-12 Months	More than 1 Year to 3 Years	3 Years and Over	Total
Financial assets					
(dollars in thousands)					
Cash and cash equivalents	\$ 1,342,090	\$ —	\$ —	\$ —	\$ 1,342,090
Agency mortgage-backed securities (principal)	—	2,823	1,030,724	55,035,649	56,069,196
Residential credit risk transfer securities (principal)	90	124,917	360,843	434,127	919,977
Non-agency mortgage-backed securities (principal)	5,994	117,376	962,774	601,516	1,687,660
Commercial mortgage-backed securities (principal)	—	—	—	533,071	533,071
Total securities	6,084	245,116	2,354,341	56,604,363	59,209,904
Residential mortgage loans (principal)	—	—	—	2,212,587	2,212,587
Corporate debt (principal)	—	—	264,786	1,755,389	2,020,175
Total loans	—	—	264,786	3,967,976	4,232,762
Assets transferred or pledged to securitization vehicles (principal)	—	—	—	5,850,474	5,850,474
Total financial assets - maturity	1,348,174	245,116	2,619,127	66,422,813	70,635,230
Effect of utilizing reset dates ⁽¹⁾	9,373,018	1,025,464	(491,834)	(9,906,648)	
Total financial assets - interest rate sensitive	\$ 10,721,192	\$ 1,270,580	\$ 2,127,293	\$ 56,516,165	\$ 70,635,230
Financial liabilities					
Repurchase agreements	\$ 43,603,275	\$ 11,166,368	\$ —	\$ —	\$ 54,769,643
Other secured financing	—	—	—	903,255	903,255
Debt issued by securitization vehicles (principal)	—	—	—	5,098,785	5,098,785
Participations issued (principal)	—	—	—	1,022,188	1,022,188
Total financial liabilities - maturity	43,603,275	11,166,368	—	7,024,228	61,793,871
Effect of utilizing reset dates ⁽¹⁾⁽²⁾	(42,574,242)	11,389,751	20,429,336	10,755,155	
Total financial liabilities - interest rate sensitive	\$ 1,029,033	\$ 22,556,119	\$ 20,429,336	\$ 17,779,383	\$ 61,793,871
Maturity gap	\$ (42,255,101)	\$ (10,921,252)	\$ 2,619,127	\$ 59,398,585	\$ 8,841,359
Cumulative maturity gap	\$ (42,255,101)	\$ (53,176,353)	\$ (50,557,226)	\$ 8,841,359	
Interest rate sensitivity gap	\$ 9,692,159	\$ (21,285,539)	\$ (18,302,043)	\$ 38,736,782	\$ 8,841,359
Cumulative rate sensitivity gap	\$ 9,692,159	\$ (11,593,380)	\$ (29,895,423)	\$ 8,841,359	

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

⁽²⁾ Includes effect of interest rate swaps.

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

Stress Testing

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

Liquidity Management Policies

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

We also monitor early warning metrics designed to measure the quality and depth of liquidity sources based upon both company-specific and market conditions. The metrics assist in assessing our liquidity conditions and are integrated into our escalation protocol.

Item 7. Management's Discussion and Analysis**Investment/Market Risk Management**

One of the primary risks we are subject to is investment/market risk. Changes in the level of interest rates can affect our net interest income, which is the difference between the income we earn on our interest earning assets and the interest expense incurred from interest bearing liabilities and derivatives. Changes in the level of interest rates and spreads can also affect the value of our assets and potential realization of gains or losses from the sale of these assets. We may utilize a variety of financial instruments, including interest rate swaps, swaptions, options, futures and other hedges, in order to limit the adverse effects of interest rates on our results. In the case of interest rate swaps, we utilize contracts linked to LIBOR but may also enter into interest rate swaps where the floating leg is linked to the overnight index swap rate or another index, particularly in light of a potential transition away from LIBOR. In addition, we may use MAC interest rate swaps in which we may receive or make a payment at the time of entering such interest rate swap to compensate for the off-market nature of such interest rate swap. MAC interest rate swaps offer price transparency, flexibility and more efficient portfolio administration through compression which is the process of reducing the number of unique interest rate swap contracts and replacing them with fewer contracts containing market defined terms. Our portfolio and the value of our portfolio, including derivatives, may be adversely affected as a result of changing interest rates and spreads.

We simulate a wide variety of interest rate scenarios in evaluating our risk. Scenarios are run to capture our sensitivity to changes in interest rates, spreads and the shape of the yield curve. We also consider the assumptions affecting our analysis such as those related to prepayments. In addition to predefined interest rate scenarios, we utilize Value-at-Risk measures to estimate potential losses in the portfolio over various time horizons utilizing various confidence levels. The following tables estimate the potential changes in economic net interest income over a twelve month period and the immediate effect on our portfolio market value (inclusive of derivative instruments), should interest rates instantaneously increase or decrease by 25, 50 or 75 basis points, and the effect of portfolio market value if mortgage option-adjusted spreads instantaneously increase or decrease by 5, 15 or 25 basis points (assuming shocks are parallel and instantaneous). All changes to income and portfolio market value are measured as percentage changes from the projected net interest income and portfolio value at the base interest rate scenario. The net interest income simulations incorporate the interest expense effect of rate resets on liabilities and derivatives as well as the amortization expense and reinvestment of principal based on the prepayments on our securities, which varies based on the level of rates. The results assume no management actions in response to the rate or spread changes. The following table presents estimates at December 31, 2021. Actual results could differ materially from these estimates.

Change in Interest Rate ⁽¹⁾	Projected Percentage Change in Economic Net Interest Income ⁽²⁾	Estimated Percentage Change in Portfolio Value ⁽³⁾	Estimated Change as a % on NAV ⁽³⁾⁽⁴⁾
-75 Basis points	(37.8%)	(0.5%)	(2.6%)
-50 Basis points	(23.4%)	(0.2)%	(1.0)%
-25 Basis points	(10.7%)	—%	(0.1)%
+25 Basis points	6.9%	(0.2%)	(0.9%)
+50 Basis points	12.5%	(0.4%)	(2.5%)
+75 Basis points	17.4%	(0.9%)	(5.0%)
MBS Spread Shock ⁽¹⁾	Estimated Change in Portfolio Market Value	Estimated Change as a % on NAV ⁽³⁾⁽⁴⁾	
-25 Basis points	1.7%	9.6%	
-15 Basis points	1.0%	5.7%	
-5 Basis points	0.3%	1.9%	
+5 Basis points	(0.3%)	(1.9%)	
+15 Basis points	(1.0%)	(5.6%)	
+25 Basis points	(1.6%)	(9.4%)	

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

⁽²⁾ Scenarios include Residential Securities, commercial real estate investments, corporate debt, repurchase agreements, other secured financing and interest rate swaps. Economic net interest income includes the net interest component of interest rate swaps.

⁽³⁾ Scenarios include Residential Securities, residential mortgage loans, MSR and derivative instruments.

⁽⁴⁾ NAV represents book value of equity.

Credit Risk Management

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

While we do not expect to encounter credit risk in our Agency mortgage-backed securities, we face credit risk on the non-Agency mortgage-backed securities and CRT securities in our portfolio. In addition, we are also exposed to credit risk on

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residential mortgage loans, commercial real estate investments and corporate debt. MSR values may also be impacted through reduced servicing fees and higher costs to service the underlying mortgage loans due to borrower performance. Generally, we are subject to risk of loss if an issuer or borrower fails to perform its contractual obligations. We have established policies and procedures for mitigating credit risk, including establishing and reviewing limits for credit exposure. We will originate or purchase commercial investments that meet our comprehensive underwriting process and credit standards and are approved by the appropriate committee. In the case of residential mortgage loans and MSR, we may engage a third party to perform due diligence on a sample of loans that we believe sufficiently represents the entire pool. Once an investment is made, our ongoing surveillance process includes regular reviews, analysis and oversight of investments by our investment personnel and appropriate committee. We review credit and other risks of loss associated with each investment. Our management monitors the overall portfolio risk and determines estimates of provision for loss. Additionally, ALCO has oversight of our credit risk exposure.

Our portfolio composition, based on balance sheet values, at December 31, 2021 and 2020 was as follows:

	December 31, 2021	December 31, 2020
Category		
Agency mortgage-backed securities ⁽¹⁾	81.9 %	86.4 %
Credit risk transfer securities	1.3 %	0.6 %
Non-agency mortgage-backed securities	2.2 %	1.1 %
Residential mortgage loans ⁽¹⁾	10.4 %	4.2 %
Mortgage servicing rights	0.7 %	0.1 %
Interests in MSR	0.1 %	— %
Commercial real estate ⁽¹⁾⁽²⁾	0.7 %	5.0 %
Corporate debt ⁽³⁾	2.7 %	2.6 %

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

⁽²⁾ Net of unamortized origination fees. Excludes commercial real estate assets held for sale as of December 31, 2021.

Counterparty Risk Management

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

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

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

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

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The following table summarizes our exposure to counterparties by geography at December 31, 2021:

Geography	Number of Counterparties	Secured Financing ⁽¹⁾	Interest Rate Swaps at Fair Value	Exposure ⁽²⁾
(dollars in thousands)				
North America	22	\$ 46,773,062	\$ (264,342)	\$ 2,297,203
Europe	10	6,561,854	(482,694)	1,646,618
Japan	3	2,337,982	—	114,423
Total	35	\$ 55,672,898	\$ (747,036)	\$ 4,058,244

⁽¹⁾ Includes repurchase agreements and other secured financing.

⁽²⁾ Represents the amount of cash and/or securities pledged as collateral to each counterparty less the aggregate of repurchase agreement and other secured financing and derivatives for each counterparty.

Operational Risk Management

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

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

We depend on third party service providers to perform various business processes related to our operations, including mortgage loan servicers and sub-servicers. Our vendor management policy establishes procedures for engaging, onboarding and monitoring the performance of third party vendors. These procedures include assessing a vendor's financial health as well as oversight of its compliance with applicable laws and regulations, cybersecurity and business continuity programs and security of personally identifiable information.

Compliance, Regulatory and Legal Risk Management

Our business is organized as a REIT, and we seek to continue to meet the requirements for taxation as a REIT. The determination that we are a REIT requires an analysis of various factual matters and circumstances. Accordingly, we closely monitor our REIT status within our risk management program. We also regularly assess our risk management in respect of our regulated and licensed subsidiaries, which include our registered broker-dealer subsidiary Arcola, and our subsidiary that is registered with the SEC as an investment adviser under the Investment Advisers Act and our subsidiary that operates as a licensed mortgage aggregator and master servicer.

The financial services industry is highly regulated and receives significant attention from regulators, which may impact both our company and our business strategy. Our investments in residential whole loans and MSR require us to comply with applicable state and federal laws and regulations and maintain appropriate governmental licenses, approvals and exemptions. We proactively monitor the potential impact regulation may have both directly and indirectly on us. We maintain a process to actively monitor both actual and potential legal action that may affect us. Our risk management framework is designed to identify, measure and monitor these risks under the oversight of the ERC.

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We currently rely on the exemption from registration provided by Section 3(c)(5)(C) of the Investment Company Act, and we seek to continue to meet the requirements for this exemption from registration. The determination that we qualify for this exemption from registration depends on various factual matters and circumstances. Accordingly, in conjunction with our legal department, we closely monitor our compliance with Section 3(c)(5)(C) within our risk management program. The monitoring of this risk is also under the oversight of the ERC.

As a result of the Dodd-Frank Act, the U.S. Commodity Futures Trading Commission (“CFTC”) gained jurisdiction over the regulation of interest rate swaps. The CFTC has asserted that this causes the operators of mortgage real estate investment trusts that use swaps as part of their business model to fall within the statutory definition of Commodity Pool Operator (“CPO”), and, absent relief from the Division of Swap Dealer and Intermediary Oversight or the CFTC, to register as CPOs. On December 7, 2012, as a result of numerous requests for no-action relief from the CPO registration requirement for operators of mortgage real estate investment trusts, the Division of Swap Dealer and Intermediary Oversight of the CFTC issued no-action relief entitled “No-Action Relief from the Commodity Pool Operator Registration Requirement for Commodity Pool Operators of Certain Pooled Investment Vehicles Organized as Mortgage Real Estate Investment Trusts” that permits a CPO to receive relief by filing a claim to perfect the use of the relief. A claim submitted by a CPO will be effective upon filing, so long as the claim is materially complete. The conditions that must be met relate to initial margin and premiums requirements, net income derived annually from commodity interest positions that are not qualifying hedging transactions, marketing of interests in the mortgage real estate investment trust to the public, and identification of the entity as a mortgage real estate investment trust in its federal tax filings with the Internal Revenue Service. While we disagree with the CFTC’s position that mortgage REITs that use swaps as part of their business model fall within the statutory definition of a CPO, we have submitted a claim for the relief set forth in the no-action relief entitled “No-Action Relief from the Commodity Pool Operator Registration Requirement for Commodity Pool Operators of Certain Pooled Investment Vehicles Organized as Mortgage Real Estate Investment Trusts” and believe we meet the criteria for such relief set forth therein.

Critical Accounting Estimates

The preparation of our consolidated financial statement in accordance with generally accepted accounting principles in the United States requires us to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ materially from these estimates and changes in assumptions could have a significant effect on the consolidated financial statements. Our critical accounting policies that require us to make significant judgments or estimates are described below. For more information on these critical accounting policies and other significant accounting policies, see the Note titled “Significant Accounting Policies” in the Notes to the Consolidated Financial Statements included in Item 15. “Exhibits, Financial Statement Schedules.”

Valuation of Financial Instruments

Residential Securities

Description: The Company carries its residential securities at estimated fair value. There is an active market for our Agency mortgage-backed securities, CRT securities and non-Agency mortgage-backed securities.

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

Sensitivity of Estimates to Change: Changes in underlying assumptions used in estimating fair value impact the carrying value of the residential securities as well as their yield. For example, an increase in CPR would decrease the carrying value and yield of our Agency mortgage-backed securities. Our valuations are most sensitive to changes in interest rate, which also impacts prepayment speeds. See Experienced and Projected Long-Term CPR, Financial Condition – Residential Securities and the interest rate sensitivity and interest rate and MBS spread shock analysis and discussions within this Item 7. for further information.

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Description: The Company has elected to account for its Residential Mortgage Loans at fair value. There is an active market for the residential whole loans in which we invest.

Judgments and Uncertainties: Since we primarily invest in residential loans that can be valued using actively quoted prices for similar assets, there are observable inputs in measuring fair value. Internal fair values are determined using quoted prices for similar market transactions, the swap curve and the underlying characteristics of the individual loans, which may include loan term, coupon, and reset dates. While prepayment rates may be difficult to predict and are a significant estimate requiring judgment in the valuation of residential whole loans, we validate prepayment speeds against those provided by independent pricing analytic providers specializing in residential mortgage loans. Internal fair values are generally compared to external pricing sources to determine reasonableness.

Sensitivity of Estimates to Change: Changes to model assumptions, including prepayment speeds may significantly impact the fair value estimate of residential mortgage loans as well as unrealized gains and losses and yield on these assets. Our valuations are most sensitive to changes in interest rate, which also impacts prepayment speeds. See the interest rate sensitivity and interest rate shock analysis and discussions within this Item 7. for further information.

MSR

Description: The Company has elected to account for its MSR at fair value. The market for mortgage servicing rights is considered less active and transparent compared to securities. As such fair value estimates for our investment in MSR are obtained from models, which use significant unobservable inputs in their valuations.

Judgments and Uncertainties: These valuations primarily utilize discounted cash flow models that incorporate unobservable market data inputs including prepayment rates, delinquency levels, costs to service and discount rates. Model valuations are then compared to valuations obtained from third party pricing providers. Management reviews the valuations received from third party pricing providers and uses them as a point of comparison to modeled values. The valuation of MSR requires significant judgment by management and the third party pricing providers.

Sensitivity of Estimates to Change: Changes in the underlying assumptions used to estimate the fair value of MSR impact the carrying value as well as the related unrealized gains and losses recognized. For further discussion of the sensitivity of the model inputs see the Note titled “Fair Value Measurements” in the Notes to the Consolidated Financial Statements included in Item 15. “Exhibits, Financial Statement Schedules.”

Interest Rate Swaps

Description: The Company is required to account for its derivative assets and liabilities at fair value, which may or may not be cleared through a derivative clearing organization. We value our cleared interest rate swaps using the prices provided by the derivatives clearing organization.

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

Sensitivity of Estimates to Change: Changes in the OIS curve will impact the carrying value of our interest rate swap assets and liabilities. Our valuations are most sensitive to changes in interest rate, which also impacts prepayment speeds. See the interest rate sensitivity and interest rate shock analysis and discussions within this Item 7. for further information.

Revenue Recognition

Description: Interest income from coupon payments is accrued based on the outstanding principal amounts of the Residential Securities and their contractual terms. Premiums and discounts associated with the purchase of the Residential Securities are amortized or accreted into interest income over the projected lives of the securities using the interest method. Gains or losses on sales of Residential Securities are recorded on trade date based on the specific identification method.

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Judgments and Uncertainties: To aid in determining projected lives of the securities, we use third party model and market information to project prepayment speeds. Our prepayment speed projections incorporate underlying loan characteristics (i.e., coupon, term, original loan size, original loan-to-value ratio, etc.) and market data, including interest rate and home price index forecasts and expert judgment. Prepayment speeds vary according to the type of investment, conditions in the financial markets and other factors and cannot be predicted with any certainty.

Sensitivity of Estimates to Change: Changes to model assumptions, including interest rates and other market data, as well as periodic revisions to the model will cause changes in the results. Adjustments are made for actual prepayment activity as it relates to calculating the effective yield. The sensitivity of changes in interest rates to our economic net interest income is included in the interest rate shock analysis and discussions within this Item 7.

Consolidation of Variable Interest Entities

Description: The Company is required to determine if it is required to consolidate entities in which it holds a variable interest.

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

Use of Estimates

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

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Glossary of Terms

A

Adjustable-Rate Loan / Security

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

Agency

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

Agency Mortgage-Backed Securities

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

Amortization

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

Average GAAP Cost of Interest Bearing Liabilities and Average Economic Cost of Interest Bearing Liabilities

Average GAAP cost of interest bearing liabilities represents annualized interest expense divided by average interest bearing liabilities. Average interest bearing liabilities reflects the average balances during the period. Average economic cost of interest bearing liabilities represents annualized economic interest expense divided by average interest bearing liabilities.

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.

Average Yield on Interest Earnings Assets and Average Yield on Interest Earnings Assets (excluding PAA)

Average yield on interest earning assets represents annualized interest income divided by average interest earning assets. Average interest earning assets reflects the average amortized cost of our investments during the period. Average yield on interest earning assets (excluding PAA) is calculated using annualized interest income (excluding PAA).

B

Basis Point (“bp”)

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

Benchmark

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

Beneficial Owner

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

Board

Refers to the board of directors of Annaly.

Bond

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

Book Value Per Share

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

Broker

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

C

Capital Buffer

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

Capital Ratio (GAAP Capital Ratio)

Calculated as total stockholders’ equity divided by total assets.

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

CMBX

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

Collateral

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

Collateralized Loan Obligation (“CLO”)

A securitization collateralized by loans and other debt instruments.

Collateralized Mortgage Obligation (“CMO”)

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

Commodity Futures Trading Commission (“CFTC”)

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

Commercial Mortgage-Backed Security

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

Constant Prepayment Rate (“CPR”)

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

Convexity

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

Corporate Debt

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

Counterparty

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

Coupon

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

Credit and Counterparty Risk

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

Credit Derivatives

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

Credit Risk Transfer (“CRT”) Securities

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

Current Face

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

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.

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

Discount Price

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

Duration

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

E**Earnings available for distribution (“EAD”) and Earnings available for distribution Per Average Common Share**

Earnings available for distribution is defined as the sum of (a) economic net interest income, (b) TBA dollar roll income and CMBX coupon income, (c) realized amortization of MSR, (d) other income (loss) (excluding depreciation expense related to commercial real estate and amortization of intangibles, non-EAD income allocated to equity method investments and other non-EAD components of other income (loss)), (e) general and administrative expenses (excluding transaction expenses and non-recurring items), and (f) income taxes (excluding the income tax effect of non-EAD income (loss) items) and excludes (g) the premium amortization adjustment representing the cumulative impact on prior periods, but not the current period, of quarter-over-quarter changes in estimated long-term prepayment speeds related to our Agency mortgage-backed securities. Earnings available for distribution per average common share is calculated by dividing earnings available for distribution by average basic common shares for the period.

This metric was previously labeled Core Earnings (excluding PAA) and Core Earnings (excluding PAA) Per Average Common Share). The definition of EAD is identical to the definition of Core Earnings (excluding PAA) from prior reporting periods.

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 Capital Ratio

Non-GAAP financial measure that is calculated as total stockholders’ equity divided by total economic assets. Total economic assets includes the implied market value of TBA derivatives and are net of debt issued by securitization vehicles.

Economic Interest Expense

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

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

Non-GAAP financial measure that is calculated as the sum of recourse debt, cost basis of TBA and CMBX derivatives outstanding and net forward purchases (sales) of investments divided by total equity. Recourse debt consists of repurchase agreements and other secured financing (excluding certain non-recourse credit facilities). Certain credit facilities (included within other secured financing), debt issued by securitization vehicles, participations issued, and mortgages payable are non-recourse to us and are excluded from this measure.

Economic Net Interest Income

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

Economic Return

Refers to the Company’s change in book value plus dividends declared divided by the prior period’s book value.

Encumbered Assets

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

Eurodollar

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

F**Face Amount**

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

Factor

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

Fannie Mae

Federal National Mortgage Association.

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Item 7. Management’s Discussion and Analysis**Federal Deposit Insurance Corporation (“FDIC”)**

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

Federal Funds Rate

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

Federal Housing Financing Agency (“FHFA”)

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

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

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

Fixed-Rate Mortgage

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

Fixed Income Clearing Corporation (“FICC”)

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

Floating Rate Bond

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

Floating Rate CMO

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

Freddie Mac

Federal Home Loan Mortgage Corporation.

Futures Contract

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

G**GAAP**

U.S. generally accepted accounting principles.

Ginnie Mae

Government National Mortgage Association.

H**Hedge**

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

I**In-the-Money**

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

Interest Bearing Liabilities

Refers to repurchase agreements, debt issued by securitization vehicles and credit facilities. Average interest bearing liabilities is based on daily balances.

Interest Earning Assets

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

Interest-Only (IO) Bond

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

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Item 7. Management’s Discussion and Analysis**Interest Rate Risk**

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

Interest Rate Swap

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

Interest Rate Swaption

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

International Swaps and Derivatives Association (“ISDA”) Master Agreement

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

Inverse IO Bond

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

Investment/Market Risk

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

Investment Advisers Act

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

Investment Company Act

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

L**Leverage**

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

Leverage Ratio (GAAP Leverage Ratio or Debt-to-Equity Ratio)

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

LIBOR (London Interbank Offered Rate)

The rate banks charge each other for short-term Eurodollar loans. LIBOR is frequently used as the base for resetting rates on floating-rate securities and the floating-rate legs of interest rate swaps. The United Kingdom Financial Conduct Authority, which regulates LIBOR, announced that all LIBOR tenors relevant to us will cease to be published or will no longer be representative after June 30, 2023.

Liquidity Risk

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

Long-Term CPR

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

Long-Term Debt

Debt which matures in more than one year.

M**Market Agreed Coupon (“MAC”) Interest Rate Swap**

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

Monetary Policy

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

Mortgage-Backed Security (“MBS”)

A security representing a direct interest in a pool of mortgage loans. The pass-through issuer or servicer collects the payments on the loans in the pool and “passes

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through” the principal and interest to the security holders on a pro rata basis.

Mortgage Loan

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

Mortgage Servicing Rights (“MSR”)

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

N**NAV**

Net asset value.

Net Interest Income

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

Net Interest Margin and Net Interest Margin (excluding PAA)

Net interest margin represents our interest income less interest expense divided by average interest earning assets. Net interest margin (excluding PAA) represents the sum of our interest income (excluding PAA) plus TBA dollar roll income and CMBX coupon income less interest expense and the net interest component of interest rate swaps divided by the sum of average interest earning assets plus average outstanding TBA contract and CMBX balances.

Net Interest Spread and Net Interest Spread (excluding PAA)

Net interest spread represents the average yield on interest earning assets less the average GAAP cost of interest bearing liabilities. Net interest spread (excluding PAA) represents the average yield on interest earning assets (excluding PAA) less the average economic cost of interest bearing liabilities.

Non-Performing Loan (“NPL”)

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

Notional Amount

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

O**Operational Risk**

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

Option Contract

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

Original Face

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

Out-of-the-Money

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

Overnight Index Swaps (“OIS”)

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

Over-The-Counter (“OTC”) Market

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

P**Par**

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

Par Amount

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

Pass-Through Security

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

Pool

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

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

Premium Amortization Adjustment (“PAA”)

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

Prepayment

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

Prepayment Risk

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

Prepayment Speed

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

Prime Rate

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

Primary Market

Market for offers or sales of new bonds by the issuer.

Principal and Interest

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

R**Rate Reset**

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

Real Estate Investment Trust (“REIT”)

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

Recourse Debt

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

Reinvestment Risk

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

Re-Performing Loan (“RPL”)

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

Repurchase Agreement

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

Residential Securities

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

Residual

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

Return on Average Equity

Calculated by taking earnings divided by average stockholders’ equity.

Reverse Repurchase Agreement

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

Risk Appetite Statement

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

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

Secured Overnight Financing Rate (“SOFR”)

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

Settlement Date

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

Short-Term Debt

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

Spread

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

T**Target Assets**

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

Tangible Economic Return

Refers to the Company’s change in tangible book value (calculated by summing common stock, additional paid-in capital, accumulated other comprehensive income (loss) and accumulated deficit less intangible assets) plus dividends declared divided by the prior period’s tangible book value.

Taxable REIT Subsidiary (“TRS”)

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

To-Be-Announced Securities (“TBAs”)

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

TBA Dollar Roll Income

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

Total Return

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

Total Return Swap

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

U**Unencumbered Assets**

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

U.S. Government-Sponsored Enterprise (“GSE”) Obligations

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

V**Value-at-Risk (“VaR”)**

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

Variable Interest Entity (“VIE”)

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

Variation Margin

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

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Item 7. Management’s Discussion and Analysis**Volatility**

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

Voting Interest Entity (“VOE”)

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

W**Warehouse Lending**

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

Weighted Average Coupon

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

Weighted Average Life (“WAL”)

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

Y**Yield-to-Maturity**

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

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

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

There have been no changes in our internal controls over financial reporting that occurred during the three months ended December 31, 2021 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

Management’s Annual Report On Internal Control Over Financial Reporting

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

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. As a result, even systems determined to be effective can provide only reasonable assurance regarding the preparation and presentation of financial statements. Moreover, projections of any evaluation of effectiveness to future periods are subject to the

risks that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Annaly's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2021. In making this assessment, the Company's management used criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission's ("COSO") Internal Control-Integrated Framework (2013).

Based on the Annaly's management's evaluation under the framework in Internal Control—Integrated Framework (2013), Annaly's management concluded that its internal control over financial reporting was effective as of December 31, 2021. Annaly's independent registered public accounting firm, Ernst & Young LLP, has issued an attestation report on Annaly's internal control over financial reporting, which is included herein.

Report of Independent Registered Public Accounting Firm

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

Opinion on Internal Control Over Financial Reporting

We have audited Annaly Capital Management, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Annaly Capital Management, Inc. and Subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statements of financial condition of the Company as of December 31, 2021 and 2020, 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, 2021, and the related notes and our report dated February 17, 2022 expressed an unqualified opinion thereon.

Basis for Opinion

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

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

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ Ernst & Young LLP

New York, NY
February 17, 2022

ITEM 9B. OTHER INFORMATION

None.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

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, 2021. 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, 2021.

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

The information regarding certain matters pertaining to our corporate governance required by Item 407(c)(3), (d)(4) and (d)(5) of Regulation S-K is incorporated by reference to the Proxy Statement to be filed with the SEC within 120 days after December 31, 2021.

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, 2021.

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

On May 20, 2020, at our 2020 Annual Meeting of Stockholders, our stockholders approved the 2020 Equity Incentive Plan. The 2020 Equity Incentive Plan authorizes us to grant options, stock appreciation rights, dividend equivalent rights, or other share-based awards, including restricted shares up to an aggregate of 125,000,000 shares, subject to adjustments for any awards that were outstanding under our 2010 Equity Incentive Plan (the “Prior Incentive Plan,” together with the 2020 Equity Incentive Plan, the “Incentive Plans”) on the effective date of the 2020 Equity Incentive Plan and subsequently expire, terminate, or are surrendered or forfeited.

Since the adoption of the 2020 Equity Incentive Plan, no further awards have been made under the Prior Incentive Plan, although existing awards remained effective.

The following table provides information as of December 31, 2021 concerning shares of our common stock authorized for issuance under the Incentive Plans.

	(a)	(b)	(c)
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 securities in column ‘a’)
Equity compensation plans approved by security holders	—	\$ —	121,808,095
Equity compensation plans not approved by security holders	—	—	—
Total	—	\$ —	121,808,095

Information with respect to security ownership of certain beneficial owners and management is incorporated herein by reference to the proxy statement to be filed with the SEC within 120 days after December 31, 2021.

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, 2021.

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, 2021.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this report:

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

All financial 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.

3. Exhibits. See Exhibit Index below.

EXHIBIT INDEX**Exhibit Number****Exhibit Description**

Exhibit Number	Exhibit Description
<u>3.1</u>	<u>Articles of Amendment and Restatement of the Articles of Incorporation of the Registrant (incorporated by reference to Exhibit 3.2 to the Registrant's Registration Statement on Form S-11 (Registration No. 333-32913) filed August 5, 1997).</u>
<u>3.2</u>	<u>Articles of Amendment of the Articles of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 of the Registrant's Registration Statement on Form S-3 (Registration Statement 333-74618) filed June 12, 2002).</u>
<u>3.3</u>	<u>Articles of Amendment of the Articles of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed August 3, 2006).</u>
<u>3.4</u>	<u>Articles of Amendment of the Articles of Incorporation of the Registrant (incorporated by reference to Exhibit 3.4 of the Registrant's Quarterly Report on Form 10-Q filed May 7, 2008).</u>
<u>3.5</u>	<u>Articles of Amendment of the Articles of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed June 23, 2011).</u>
<u>3.6</u>	<u>Articles of Amendment of the Articles of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed May 23, 2019).</u>
<u>3.7</u>	<u>Form of Articles Supplementary designating the Registrant's 7.875% Series A Cumulative Redeemable Preferred Stock, liquidation preference \$25.00 per share (incorporated by reference to Exhibit 3.3 to the Registrant's Registration Statement on Form 8-A filed April 1, 2004).</u>
<u>3.8</u>	<u>Articles Supplementary of the Registrant's designating an additional 2,750,000 shares of the Company's 7.875% Series A Cumulative Redeemable Preferred Stock, as filed with the State Department of Assessments and Taxation of Maryland on October 15, 2004 (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed October 18, 2004).</u>
<u>3.9</u>	<u>Articles Supplementary designating the Registrant's 6% Series B Cumulative Convertible Preferred Stock, liquidation preference \$25.00 per share (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on 8-K filed April 10, 2006).</u>
<u>3.10</u>	<u>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).</u>
<u>3.11</u>	<u>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).</u>
<u>3.12</u>	<u>Articles Supplementary designating the Registrant's 7.625% Series E Cumulative Redeemable Preferred Stock, liquidation preference \$25.00 (incorporated by reference to Exhibit 3.12 to the Registrant's Registration Statement on Form 8-A filed July 12, 2016).</u>
<u>3.13</u>	<u>Articles Supplementary reclassifying the Registrant's 6% Series B Cumulative Convertible Preferred Stock, liquidation preference \$25.00 per share (incorporated by reference to Exhibit 3.13 to the Registrant's Registration Statement on Form 8-A filed July 27, 2017).</u>
<u>3.14</u>	<u>Articles Supplementary designating the Registrant's 6.95% Series F Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, liquidation preference \$25.00 per share (incorporated by reference to Exhibit 3.14 to the Registrant's Registration Statement on Form 8-A filed July 27, 2017).</u>

3.15	<u>Articles Supplementary reclassifying and designating (1) 7,412,500 authorized but unissued shares of the Registrant's preferred stock, \$0.01 par value per share, without designation as to series or class, as shares of undesignated Common Stock; (2) 650,000 authorized but unissued shares of the Registrant's 7.625% Series C Cumulative Redeemable Preferred Stock, \$0.01 par value per share, as shares of undesignated Common Stock; and (3) 3,400,000 authorized but unissued shares of the Registrant's 6.95% Series F Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, \$0.01 par value per share, as shares of undesignated Common Stock (incorporated by reference to Exhibit 3.15 of the Registrant's Quarterly Report on Form 10-Q filed November 3, 2017).</u>	Business	
3.16	<u>Articles Supplementary designating Annaly's 6.50% Series G Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, liquidation preference \$25.00 per share (incorporated by reference to Exhibit 3.16 to the Registrant's Registration Statement on Form 8-A filed January 10, 2018).</u>		Risk Factors
3.17	<u>Articles Supplementary reclassifying and designating (i) 11,500,000 authorized but unissued shares of the Registrant's preferred stock, \$0.01 par value per share, without designation as to series or class, as shares of Registrant's undesignated common stock and (ii) 5,000,000 authorized but unissued shares of Registrant's 7.625% Series C Cumulative Redeemable Preferred Stock, \$0.01 par value per share, as shares of Registrant's undesignated common stock (incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q filed August 3, 2018).</u>		
3.18	<u>Form of Articles Supplementary designating Annaly's 8.125% Series H Cumulative Redeemable Preferred Stock, liquidation preference \$25.00 per share (incorporated by reference to Exhibit 3.17 to the Registrant's Registration Statement on Form 8-A filed September 7, 2018).</u>	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	
3.19	<u>Articles Supplementary reclassifying and designating 2,200,000 authorized but unissued shares of the Registrant's preferred stock, \$0.01 par value per share, without designation as to series or class, as shares of undesignated Common Stock (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed June 3, 2019).</u>		
3.20	<u>Articles Supplementary designating Annaly's 6.750% Series I Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, liquidation preference \$25.00 per share (incorporated by reference to Exhibit 3.20 to the Registrant's Registration Statement on Form 8-A filed June 26, 2019).</u>		
3.21	<u>Articles Supplementary reclassifying and designating 7,000,000 authorized but unissued shares of Registrant's 7.625% Series C Cumulative Redeemable Preferred Stock, \$0.01 par value per share, as shares of Registrant's undesignated common stock (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed July 22, 2019).</u>		
3.22	<u>Articles Supplementary filed with the State Department of Assessments and Taxation of Maryland effective on January 4, 2021 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed January 5, 2021).</u>		
3.23	<u>Amended and Restated Bylaws of the Registrant, February 9, 2022 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed February 10, 2022).</u>		
4.1	<u>Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 to Amendment No. 1 to the Registrant's Registration Statement on Form S-11 (Registration No. 333-32913) filed September 17, 1997).</u>	Management's Discussion and Analysis	
4.2	<u>Specimen Preferred Stock Certificate (incorporated by reference to Exhibit 4.2 to the Registrant's Registration Statement on Form S-3 (Registration No. 333-74618) filed on December 5, 2001).</u>		
4.3	<u>Specimen Series E Preferred Stock Certificate (incorporated by reference to Exhibit 4.7 to the Registrant's Registration Statement (Registration No. 333-211140) on Form S-4/A filed May 27, 2016).</u>		
4.4	<u>Specimen Series G Preferred Stock Certificate (incorporated by reference to Exhibit 4.9 to the Registrant's Registration Statement on Form 8-A filed January 10, 2018).</u>	Exhibit Index	
4.5	<u>Specimen Series I Preferred Stock Certificate (incorporated by reference to Exhibit 4.7 to the Registrant's Registration Statement on Form 8-A filed June 26, 2019).</u>		
4.6	<u>Indenture, dated as of February 12, 2010, between the Registrant and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed February 12, 2010).</u>	Financial Statements	
4.7	<u>Indenture, dated as of February 1, 2019, between the Registrant and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.7 to the Registrant's Current Report on Form S-3 filed February 1, 2019).</u>		
4.8	<u>Supplemental Indenture, dated as of February 12, 2010, between the Registrant and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed February 12, 2010).</u>	Signatures	
4.9	<u>Second Supplemental Indenture, dated as of May 14, 2012, between the Registrant and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed May 14, 2012).</u>		

Business	4.10	Description of Securities. †
	10.1	Form of Master Repurchase Agreement (incorporated by reference to Exhibit 10.7 to the Registrant's Registration Statement on Form S-11 (Registration No. 333-32913) filed August 5, 1997).
	10.2	Registrant's 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed June 1, 2010).*
	10.3	Registrant's Deferred Compensation Plan for Directors (incorporated by reference to Exhibit 10.5 to the Registrant's Annual Report on Form 10-K filed February 23, 2017).*
Risk Factors	10.4	Form of Indemnification Agreement (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed March 20, 2017).
	10.5	2020 Equity Incentive Plan (incorporated herein by reference to Annex A to the Registrant's proxy statement dated April 8, 2020).*
	10.6	Form of Deferred Stock Unit Award for Directors (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed May 21, 2020).*
	10.7	Annaly Capital Management, Inc. Executive Severance Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed July 1, 2020).*
Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	10.8	Form of 2020 Performance Stock Unit Award (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed July 1, 2020).*
	10.9	Form of 2020 Restricted Stock Unit Award (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed July 1, 2020).*
	10.10	Form of 2022 Performance Stock Unit Award.*†
	10.11	Form of 2022 Restricted Stock Unit Award.*†
	21.1	Subsidiaries of Registrant. †
	23.1	Consent of Ernst & Young LLP. †
	31.1	Certification of David L. Finkelstein, Chief Executive Officer and President (Principal Executive Officer) of the Registrant, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. †
	31.2	Certification of Serena Wolfe, Chief Financial Officer (Principal Financial Officer) of the Registrant, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. †
	32.1	Certification of David L. Finkelstein, Chief Executive Officer and President (Principal Executive Officer) of the Registrant, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. †
	32.2	Certification of Serena Wolfe, Chief Financial Officer (Principal Financial Officer) of the Registrant, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. †
Management's Discussion and Analysis	101.INS XBRL	The instance document does not appear in the interactive data file because its Extensible Business Reporting Language (XBRL) tags are embedded within the Inline XBRL document. The following documents are formatted in Inline XBRL: (i) Consolidated Statements of Financial Condition at December 31, 2021 and 2020; (ii) Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2021, 2020 and 2019; (iii) Consolidated Statements of Stockholders' Equity for the years ended December 31, 2021, 2020 and 2019; (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2021, 2020 and 2019; and (v) Notes to Consolidated Financial Statements.
	101.SCH XBRL	Taxonomy Extension Schema Document †
Exhibit Index	101.CAL XBRL	Taxonomy Extension Calculation Linkbase Document †
	101.DEF XBRL	Additional Taxonomy Extension Definition Linkbase Document Created†
Financial Statements	101.LAB XBRL	Taxonomy Extension Label Linkbase Document †
	101.PRE XBRL	Taxonomy Extension Presentation Linkbase Document †
Signatures	104	The cover page for the Registrant's Annual Report on Form 10-K for the year ended December 31, 2021 (formatted in Inline XBRL and contained in Exhibit 101).
	*	Exhibit Numbers 10.2, 10.3, 10.5, 10.6, 10.7, 10.8, 10.9, 10.10, 10.11 are management contracts or compensatory plans required to be filed as Exhibits to this Form 10-K.
	†	Submitted electronically herewith.

ITEM 16. FORM 10-K SUMMARY

None.

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Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial condition of Annaly Capital Management, Inc. and subsidiaries (the Company) as of December 31, 2021 and 2020, 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, 2021, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2021, 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 17, 2022 expressed an unqualified opinion thereon.

Basis for Opinion

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

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

Critical Audit Matters

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

Amortization of net premiums on Agency mortgage-backed securities

Description of the Matter

Amortization of net premiums on Agency securities totaled \$761.8 million for the year ended December 31, 2021. As disclosed in Note 3 to the consolidated financial statements, the Company amortizes or accretes premiums or discounts into interest income for its Agency mortgage-backed securities. Amortization or accretion is derived taking into account estimates of future principal prepayments, which are derived using third-party models and market information, in the calculation of the effective yield.

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

Financial Statements

*How We
Addressed the
Matter in Our
Audit*

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

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

Valuation of mortgage servicing rights

*Description of
the Matter*

The Company invests in servicing related assets comprised of mortgage servicing rights and interests in mortgage servicing rights (collectively "MSR") totaling \$544.6 million and \$69.3 million, respectively, as of December 31, 2021 as included in Note 7 to the consolidated financial statements. The Company records MSR at fair value on a recurring basis with changes in fair value recognized in the statement of comprehensive income (loss). These fair value estimates are based on valuation techniques used to estimate future cash flows that incorporate significant unobservable assumptions, which include discount rates, prepayment rates and servicing costs.

Auditing the valuation of MSR is complex and required the use of a specialist due to the high degree of judgement in the assumptions made by management which are unobservable in nature. Additionally, selecting and applying audit procedures to address the estimation uncertainty involves auditor subjectivity and industry-specific knowledge of MSR, including the current market conditions considered by a market participant.

*How We
Addressed the
Matter in Our
Audit*

We obtained an understanding, evaluated and tested the Company's processes and the design and operating effectiveness of internal controls addressing the valuation of MSR, comprising management's governance over the functionality of the discounted cash flow model utilized to estimate fair value; management's review of the completeness and accuracy of the significant assumptions used in the discounted cash flow model (i.e., discount rates, prepayment rates and servicing costs); management's comparison of the assumptions used to independent third-party data; and management's evaluation of the internal fair value mark to third-party independent valuation firms' ranges, as well as their evaluation of the competence and objectivity of those third-party independent valuation firms, to assess the reasonableness of the fair values developed by the Company.

To test the valuation of MSR, our audit procedures included, among others, evaluating the Company's valuation techniques used to estimate future cash flows, validating the accuracy and completeness of model objective inputs by agreeing these inputs to the Company's underlying records and third-party data, and testing the assumptions used by management by comparing them to current industry, market and economic trends. We involved our valuation specialists to assist in our evaluation of the Company's model, valuation methodology and the assumptions used by management, and to independently develop a range of fair values for the MSR. We compared the assumptions made by management and management's estimate of fair value to the assumptions and fair value ranges developed by management's valuation specialists and our independent ranges to assess management's estimates of fair value. We also assessed the competence and objectivity of management's independent valuation firms engaged to evaluate the reasonableness of the fair values developed by the Company.

/s/ Ernst & Young LLP

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

New York, NY
February 17, 2022

Financial Statements

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

	December 31, 2021	December 31, 2020
Assets		
Cash and cash equivalents (includes pledged assets of \$1,222,505 and \$1,137,809, respectively) ⁽¹⁾	\$ 1,342,090	\$ 1,243,703
Securities (includes pledged assets of \$56,675,447 and \$67,471,074, respectively) ⁽²⁾	63,655,674	75,652,396
Loans, net (includes pledged assets of \$2,462,776 and \$2,231,035, respectively) ⁽³⁾	4,242,043	3,083,821
Mortgage servicing rights (includes pledged assets of \$— and \$5,541, respectively)	544,562	100,895
Interests in MSR	69,316	—
Assets transferred or pledged to securitization vehicles	6,086,308	6,910,020
Real estate, net	—	656,314
Assets of disposal group held for sale	194,138	—
Derivative assets	170,370	171,134
Receivable for unsettled trades	2,656	15,912
Principal and interest receivable	234,983	268,073
Goodwill and intangible assets, net	24,241	127,341
Other assets	197,683	225,494
Total assets	\$ 76,764,064	\$ 88,455,103
Liabilities and stockholders' equity		
Liabilities		
Repurchase agreements	\$ 54,769,643	\$ 64,825,239
Other secured financing	903,255	917,876
Debt issued by securitization vehicles	5,155,633	5,652,982
Participations issued	1,049,066	39,198
Mortgages payable	—	426,256
Liabilities of disposal group held for sale	154,956	—
Derivative liabilities	881,537	1,033,345
Payable for unsettled trades	147,908	884,069
Interest payable	91,176	191,116
Dividends payable	321,142	307,613
Other liabilities	94,423	155,613
Total liabilities	63,568,739	74,433,307
Stockholders' equity		
Preferred stock, par value \$0.01 per share, 63,500,000 and 85,150,000 authorized, respectively, 63,500,000 issued and outstanding	1,536,569	1,536,569
Common stock, par value \$0.01 per share, 2,936,500,000 and 2,914,850,000 authorized, respectively, 1,459,736,258 and 1,398,240,618 issued and outstanding, respectively	14,597	13,982
Additional paid-in capital	20,313,832	19,750,818
Accumulated other comprehensive income (loss)	958,410	3,374,335
Accumulated deficit	(9,653,582)	(10,667,388)
Total stockholders' equity	13,169,826	14,008,316
Noncontrolling interests	25,499	13,480
Total equity	13,195,325	14,021,796
Total liabilities and equity	\$ 76,764,064	\$ 88,455,103

⁽¹⁾ Includes cash of consolidated Variable Interest Entities ("VIEs") of \$16.2 million and \$22.2 million at December 31, 2021 and 2020, respectively.

⁽²⁾ Excludes \$44.2 million and \$81.5 million at December 31, 2021 and 2020, respectively, of agency mortgage-backed securities, \$350.4 million and \$576.6 million at December 31, 2021 and 2020, respectively, of non-Agency mortgage-backed securities and \$0.0 million and \$391.0 million at December 31, 2021 and 2020, respectively, of commercial mortgage-backed securities in consolidated VIEs pledged as collateral and eliminated from the Company's Consolidated Statements of Financial Condition.

⁽³⁾ Includes \$2.3 million and \$47.0 million of residential mortgage loans held for sale at December 31, 2021 and 2020, respectively.

See notes to consolidated financial statements.

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,		
	2021	2020	2019
Net interest income			
Interest income	\$ 1,983,036	\$ 2,229,625	\$ 3,787,297
Interest expense	249,243	899,112	2,784,875
Net interest income	1,733,793	1,330,513	1,002,422
Realized and unrealized gains (losses)			
Net interest component of interest rate swaps	(276,142)	(207,877)	351,375
Realized gains (losses) on termination or maturity of interest rate swaps	(1,236,349)	(1,917,628)	(1,442,964)
Unrealized gains (losses) on interest rate swaps	2,198,486	(904,532)	(1,210,276)
Subtotal	685,995	(3,030,037)	(2,301,865)
Net gains (losses) on disposal of investments and other	(62,705)	661,513	(47,944)
Net gains (losses) on other derivatives and financial instruments	121,735	756,305	(680,770)
Net unrealized gains (losses) on instruments measured at fair value through earnings	183,663	(303,024)	36,021
Loan loss (provision) reversal	145,066	(147,581)	(16,569)
Business divestiture-related gains (losses)	(278,559)	—	—
Subtotal	109,200	967,213	(709,262)
Total realized and unrealized gains (losses)	795,195	(2,062,824)	(3,011,127)
Other income (loss)	57,981	36,311	106,547
General and administrative expenses			
Compensation and management fee	118,451	131,685	170,628
Other general and administrative expenses	67,563	90,510	101,140
Total general and administrative expenses	186,014	222,195	271,768
Income (loss) before income taxes	2,400,955	(918,195)	(2,173,926)
Income taxes	4,675	(28,423)	(10,835)
Net income (loss)	2,396,280	(889,772)	(2,163,091)
Net income (loss) attributable to noncontrolling interests	6,384	1,391	(226)
Net income (loss) attributable to Annaly	2,389,896	(891,163)	(2,162,865)
Dividends on preferred stock	107,532	142,036	136,576
Net income (loss) available (related) to common stockholders	\$ 2,282,364	\$ (1,033,199)	\$ (2,299,441)
Net income (loss) per share available (related) to common stockholders			
Basic	\$ 1.60	\$ (0.73)	\$ (1.60)
Diluted	\$ 1.60	\$ (0.73)	\$ (1.60)
Weighted average number of common shares outstanding			
Basic	1,427,426,079	1,414,659,439	1,434,912,682
Diluted	1,428,569,003	1,414,659,439	1,434,912,682
Other comprehensive income (loss)			
Net income (loss)	\$ 2,396,280	\$ (889,772)	\$ (2,163,091)
Unrealized gains (losses) on available-for-sale securities	(2,419,618)	2,012,878	4,135,862
Reclassification adjustment for net (gains) losses included in net income (loss)	3,693	(776,734)	(17,806)
Other comprehensive income (loss)	(2,415,925)	1,236,144	4,118,056
Comprehensive income (loss)	(19,645)	346,372	1,954,965
Comprehensive income (loss) attributable to noncontrolling interests	6,384	1,391	(226)
Comprehensive income (loss) attributable to Annaly	(26,029)	344,981	1,955,191
Dividends on preferred stock	107,532	142,036	136,576
Comprehensive income (loss) attributable to common stockholders	\$ (133,561)	\$ 202,945	\$ 1,818,615

See notes to consolidated financial statements.

Financial Statements

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(dollars in thousands)

	For The Years Ended December 31,		
	2021	2020	2019
Preferred stock			
Beginning of period	\$ 1,536,569	\$ 1,982,026	\$ 1,778,168
Issuance	—	—	428,324
Redemption	—	(445,457)	(224,466)
End of period	\$ 1,536,569	\$ 1,536,569	\$ 1,982,026
Common stock			
Beginning of period	\$ 13,982	\$ 14,301	\$ 13,138
Issuance	609	—	1,422
Buyback of common stock	—	(324)	(261)
Stock-based award activity	6	3	—
Direct purchase and dividend reinvestment	—	2	2
End of period	\$ 14,597	\$ 13,982	\$ 14,301
Additional paid-in capital			
Beginning of period	\$ 19,750,818	\$ 19,966,923	\$ 18,794,331
Issuance	551,606	(93)	1,397,484
Buyback of common stock	—	(209,094)	(223,313)
Stock-based award activity	11,408	6,452	2,162
Redemption of preferred stock	—	(14,543)	(5,534)
Direct purchase and dividend reinvestment	—	1,173	1,793
End of period	\$ 20,313,832	\$ 19,750,818	\$ 19,966,923
Accumulated other comprehensive income (loss)			
Beginning of period	\$ 3,374,335	\$ 2,138,191	\$ (1,979,865)
Unrealized gains (losses) on available-for-sale securities	(2,419,618)	2,012,878	4,135,862
Reclassification adjustment for net gains (losses) included in net income (loss)	3,693	(776,734)	(17,806)
End of period	\$ 958,410	\$ 3,374,335	\$ 2,138,191
Accumulated deficit			
Beginning of period - unadjusted	\$ (10,667,388)	\$ (8,309,424)	\$ (4,493,660)
Cumulative effect of change in accounting principle for credit losses	—	(39,641)	—
Beginning of period - adjusted	(10,667,388)	(8,349,065)	(4,493,660)
Net income (loss) attributable to Annaly	2,389,896	(891,163)	(2,162,865)
Dividends declared on preferred stock ⁽¹⁾	(107,532)	(142,036)	(136,576)
Dividends and dividend equivalents declared on common stock and stock-based awards ⁽¹⁾	(1,268,558)	(1,285,124)	(1,516,323)
End of period	\$ (9,653,582)	\$ (10,667,388)	\$ (8,309,424)
Total stockholder's equity	\$ 13,169,826	\$ 14,008,316	\$ 15,792,017
Noncontrolling interests			
Beginning of period	\$ 13,480	\$ 4,327	\$ 5,689
Net income (loss) attributable to noncontrolling interests	6,384	1,391	(226)
Equity contributions from (distributions to) noncontrolling interests	5,635	7,762	(1,136)
End of period	\$ 25,499	\$ 13,480	\$ 4,327
Total equity	\$ 13,195,325	\$ 14,021,796	\$ 15,796,344

⁽¹⁾ Refer to the "Capital Stock" Note for dividends per share for each class of shares.

See notes to consolidated financial statements.

Financial Statements

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

	For The Years Ended December 31,		
	2021	2020	2019
Cash flows from operating activities			
Net income (loss)	\$ 2,396,280	\$ (889,772)	\$ (2,163,091)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities			
Amortization of premiums and discounts of investments, net	784,110	1,371,178	1,113,273
Amortization of securitized debt premiums and discounts and deferred financing costs	(6,620)	(11,576)	(11,854)
Depreciation, amortization and other noncash expenses	24,636	41,357	31,559
Net (gains) losses on disposals of investments and other	62,705	(661,513)	47,944
Net (gains) losses on investments and derivatives	(1,267,535)	2,368,879	1,855,025
Net (gains) losses on business divestitures	278,559	—	—
Income from unconsolidated joint ventures	12,181	7,072	6,893
Loan loss provision (reversal)	(145,066)	147,581	16,569
Payments on purchases of loans held for sale	(51,403)	(147,833)	(250,348)
Proceeds from sales and repayments of loans held for sale	90,020	168,716	282,693
Net receipts (payments) on derivatives	932,867	(1,958,131)	(1,939,634)
Net change in			
Other assets	31,044	249,778	(39,880)
Interest receivable	32,926	159,320	(85,951)
Interest payable	(99,590)	(285,219)	(94,593)
Other liabilities	1,725	(31,870)	31,838
Net cash provided by (used in) operating activities	3,076,839	527,967	(1,199,557)
Cash flows from investing activities			
Payments on purchases of securities	(22,344,751)	(32,676,856)	(63,465,822)
Proceeds from sales of securities	11,670,321	52,639,778	25,606,504
Principal payments on securities	18,742,951	19,571,476	17,199,893
Payments on purchases and origination of loans	(7,715,200)	(2,257,314)	(4,126,123)
Proceeds from sales and maturities of loans	1,213,745	624,026	365,787
Principal payments on loans	2,610,912	2,222,500	3,139,084
Payments on purchases of MSR	(473,035)	—	—
Proceeds from sales of MSR	82,175	72,160	—
Payments on purchases of interests in MSR	(65,107)	—	—
Investments in real estate	(2,329)	(7,450)	(39,144)
Proceeds from sales of real estate	53,910	149,600	24,955
Proceeds from reverse repurchase agreements	16,734,313	58,800,000	98,339,755
Payments on reverse repurchase agreements	(16,734,313)	(58,800,000)	(97,689,715)
Distributions in excess of cumulative earnings from unconsolidated joint ventures	290	7,590	3,155
Proceeds from sale of equity securities	6,957	—	—
Cash acquired (paid) in asset acquisition	—	6,264	—
Net proceeds from business divestiture	1,118,440	—	—
Net cash provided by (used in) investing activities	4,899,279	40,351,774	(20,641,671)
Cash flows from financing activities			
Proceeds from repurchase agreements and other secured financing	2,288,704,788	2,776,331,362	5,470,733,256
Payments on repurchase agreements and other secured financing	(2,298,775,005)	(2,816,805,618)	(5,449,836,013)
Proceeds from issuances of securitized debt	3,719,027	2,385,374	3,444,055
Principal payments on securitized debt	(1,716,196)	(1,238,962)	(2,031,959)
Payment of deferred financing cost	(9,279)	(553)	(12,228)
Net proceeds from stock offerings, direct purchases and dividend reinvestments	552,215	1,175	1,829,025
Redemptions of preferred stock	—	(460,000)	(230,000)
Proceeds from participations issued	1,847,821	38,741	—
Payments on repurchases of participations issued	(818,575)	—	—
Principal payments on participations issued	(23,374)	—	—
Net principal receipts (payments) on mortgages payable	(2,237)	(60,980)	(26,202)
Net contributions (distributions) from (to) noncontrolling interests	5,635	7,762	(1,136)
Net payments on share repurchase	—	(209,418)	(223,574)
Settlement of stock-based awards in satisfaction of withholding tax requirements	(2,830)	—	—
Dividends paid	(1,359,721)	(1,475,650)	(1,689,016)
Net cash provided by (used in) financing activities	(7,877,731)	(41,486,767)	21,956,208
Net (decrease) increase in cash and cash equivalents	\$ 98,387	\$ (607,026)	\$ 114,980
Cash and cash equivalents including cash pledged as collateral, beginning of period	1,243,703	1,850,729	1,735,749
Cash and cash equivalents including cash pledged as collateral, end of period	\$ 1,342,090	\$ 1,243,703	\$ 1,850,729
Supplemental disclosure of cash flow information			
Interest received	\$ 2,701,381	\$ 3,681,826	\$ 4,811,218
Dividends received	\$ 51	\$ 4,643	\$ 8,395
Interest paid (excluding interest paid on interest rate swaps)	\$ 269,244	\$ 1,166,977	\$ 2,902,644
Net interest received (paid) on interest rate swaps	\$ (340,738)	\$ 296,621	\$ (323,028)
Taxes received (paid)	\$ (3,797)	\$ 1,515	\$ 2,284
Noncash investing and financing activities			
Receivable for unsettled trades	\$ 2,656	\$ 15,912	\$ 4,792
Payable for unsettled trades	\$ 147,908	\$ 884,069	\$ 463,387
Net change in unrealized gains (losses) on available-for-sale securities, net of reclassification adjustment	\$ (2,415,925)	\$ 1,236,144	\$ 4,118,056
Dividends declared, not yet paid	\$ 321,142	\$ 307,613	\$ 357,527
Derecognition of assets of consolidated VIEs	\$ 3,075,961	\$ 1,222,221	\$ —
Derecognition of securitized debt of consolidated VIEs	\$ 2,506,799	\$ 1,141,311	\$ —
Derecognition of mortgages payable	\$ 314,485	\$ —	\$ —

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ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED December 31, 2021, 2020 and 2019

1. DESCRIPTION OF BUSINESS

Annaly Capital Management, Inc. (the “Company” or “Annaly”) is a Maryland corporation that commenced operations on February 18, 1997. The Company is a leading diversified capital manager with investment strategies across mortgage finance and corporate middle market lending. The Company owns a portfolio of real estate related investments, including mortgage pass-through certificates, collateralized mortgage obligations, credit risk transfer (“CRT”) securities, other securities representing interests in or obligations backed by pools of mortgage loans, residential mortgage loans, mortgage servicing rights (“MSR”) and corporate debt. The Company’s principal business objective is to generate net income for distribution to its stockholders and optimize its returns through prudent management of its diversified investment strategies.

The Company is an internally-managed company that has elected to be taxed as a Real Estate Investment Trust (“REIT”) as defined under the Internal Revenue Code of 1986, as amended, and regulations promulgated thereunder (the “Code”). Prior to the closing of the Internalization (as defined in “Related Party Transactions” Note) on June 30, 2020, the Company was externally managed by Annaly Management Company LLC (the “Former Manager”).

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

Investment Groups	Description
Annaly Agency Group	Invests in Agency mortgage-backed securities (“MBS”) collateralized by residential mortgages which are guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae and complementary investments within the Agency market, including MSR and Agency commercial mortgage-backed securities.
Annaly Residential Credit Group	Invests primarily in non-Agency residential whole loans and securitized products within the residential and commercial markets.
Annaly Middle Market Lending Group	Provides financing to private equity-backed middle market businesses, focusing primarily on senior debt within select industries.

In March 2021, the Company announced that it had entered into a definitive agreement to sell and exit its Commercial Real Estate (“CRE”) business. During the year ended December 31, 2021, the platform and the significant majority of the assets were transferred with remaining assets expected to be transferred by the end of the first quarter of 2022 subject to regulatory approvals. Refer to the “Sale of Commercial Real Estate Business” Note for additional information.

2. BASIS OF PRESENTATION

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

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

Certain line items in the Company’s Consolidated Statements of Cash Flows were aggregated to simplify presentation. Prior periods have been adjusted to conform to the current presentation.

Beginning with the quarter ended June 30, 2021, the Company began classifying certain portfolio activity- or volume-related expenses (including but not limited to brokerage and commission fees, due diligence costs and securitization expenses) as Other income (loss) rather than Other general and administrative expenses in the Consolidated Statements of Comprehensive Income (Loss) to better reflect the nature of the items. As such, prior periods have been conformed to the current presentation. Other general and administrative expenses for the three months ended March 31, 2021 decreased by \$1.8 million and for the years ended December 31, 2020 and 2019 decreased by \$17.0 million and \$29.9 million, respectively, and Other income (loss) decreased by the same amounts for the three months ended March 31, 2021 and the years ended December 31, 2020 and 2019, respectively.

3. SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are described below or are included elsewhere in these notes to the consolidated financial statements.

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

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

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

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

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

Cash and Cash Equivalents – Cash and cash equivalents include cash on hand, cash held in money market funds on an overnight basis and cash pledged as collateral with counterparties. Cash deposited with clearing organizations is carried at cost, which approximates fair value. Cash and securities deposited with clearing organizations and collateral held in the form of cash on margin with counterparties to the Company's interest rate swaps and other derivatives totaled \$1.2 billion and \$1.1 billion at December 31, 2021 and December 31, 2020, respectively.

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

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

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

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

Stock-Based Compensation – The Company measures compensation expense for stock-based awards at fair value, which is generally based on the grant-date fair value of the Company's common stock. Compensation expense is recognized ratably over the vesting or requisite service period of the award. Stock-based awards that contain market-based conditions are valued using a model.

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Compensation expense for awards with performance conditions is recognized based on the probable outcome of the performance condition at each reporting date. Compensation expense for awards with market conditions is recognized irrespective of the probability of the market condition being achieved and is not reversed if the market condition is not met. Stock-based awards that do not require future service (i.e., vested awards) are expensed immediately. Forfeitures are recorded when they occur. The Company generally issues new shares of common stock upon delivery of stock-based awards.

Interest Income - The Company recognizes interest income primarily on Residential Securities (as defined in the “Securities” Note), residential mortgage loans, commercial investments and reverse repurchase agreements. Interest accrued but not paid is recognized as Interest receivable on the Consolidated Statements of Financial Condition. Interest income is presented as a separate line item on the Consolidated Statements of Comprehensive Income (Loss). Refer to the “Interest Income and Interest Expense” Note for further discussion.

For its securities, the Company recognizes coupon income, which is a component of interest income, based upon the outstanding principal amounts of the financial instruments and their contractual terms. In addition, the Company amortizes or accretes premiums or discounts into interest income for its Agency mortgage-backed securities (other than interest-only securities, multifamily and reverse mortgages), taking into account estimates of future principal prepayments in the calculation of the effective yield. The Company recalculates the effective yield as differences between anticipated and actual prepayments occur. Using third party model and market information to project future cash flows and expected remaining lives of securities, the effective interest rate determined for each security is applied as if it had been in place from the date of the security’s acquisition. The amortized cost of the security is then adjusted to the amount that would have existed had the new effective yield been applied since the acquisition date, which results in a cumulative premium amortization adjustment in each period. The adjustment to amortized cost is offset with a charge or credit to interest income. Changes in interest rates and other market factors will impact prepayment speed projections and the amount of premium amortization recognized in any given period.

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

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

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

The Company has made an accounting policy election not to measure an allowance for loans losses for accrued interest receivable. If interest receivable is deemed to be uncollectible or not collected within 90 days of its contractual due date for commercial loans or 120 days for corporate debt carried at amortized cost, it is written off through a reversal of interest income. Any interest written off that is recovered is recognized as interest income.

Refer to the “Interest Income and Interest Expense” Note for further discussion of interest income.

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

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Recent Accounting Pronouncements

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

Standard	Description	Effective Date	Effect on the Financial Statements or Other Significant Matters
Standards that have been adopted			
ASU 2016-13 Financial instruments - Credit losses (Topic 326): Measurement of credit losses on financial instruments (“ASU 2016-13”)	This ASU updates the existing incurred loss model to a current expected credit loss (“CECL”) model for financial assets and net investments in leases that are not accounted for at fair value through earnings. The amendments affect cash and cash equivalents, reverse repurchase agreements, certain loans, held-to-maturity debt securities, trade receivables, net investments in leases, off-balance sheet credit exposures and any other financial assets not excluded from the scope. There are also limited amendments to the impairment model for available-for-sale debt securities.	January 1, 2020	The Company adopted ASU 2016-13 using the modified retrospective method for all financial assets and off-balance-sheet credit exposures in scope. The modified retrospective approach requires an adjustment to beginning retained earnings for the cumulative effect of adopting the standard. Results for reporting periods beginning after January 1, 2020 are presented in accordance with ASU 2016-13, while prior periods continue to be reported in accordance with previously applicable GAAP. As a result of the adoption, the Company recorded an increase to the loan loss allowance of \$37.4 million and a liability of \$2.2 million for unfunded loan commitments, which reduced beginning retained earnings by \$39.6 million as of January 1, 2020.
ASU 2020-04 Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting	This ASU provides optional, temporary relief to accounting for contract modifications resulting from reference rate reform.	January 1, 2020	The Company has elected to retrospectively apply the practical expedients to modifications of qualifying contracts as continuation of the existing contract rather than as a new contract. The adoption had no immediate impact and is not expected to have a material impact on the Company’s consolidated financial statements as the guidance continues to be applied to contract modifications until the ASU’s termination date.

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4. FINANCIAL INSTRUMENTS

The following table presents characteristics for certain of the Company's financial instruments at December 31, 2021 and 2020.

		Financial Instruments ⁽¹⁾		
Balance Sheet Line Item	Type / Form	Measurement Basis	December 31, 2021	December 31, 2020
Assets		(dollars in thousands)		
Securities	Agency mortgage-backed securities ⁽²⁾	Fair value, with unrealized gains (losses) through other comprehensive income	\$ 59,939,383	\$ 73,562,972
Securities	Agency mortgage-backed securities ⁽³⁾	Fair value, with unrealized gains (losses) through earnings	586,222	504,087
Securities	Residential credit risk transfer securities	Fair value, with unrealized gains (losses) through earnings	936,228	532,403
Securities	Non-agency mortgage-backed securities	Fair value, with unrealized gains (losses) through earnings	1,663,336	972,192
Securities	Commercial real estate debt investments - CMBS ⁽⁴⁾	Fair value, with unrealized gains (losses) through other comprehensive income	—	31,603
Securities	Commercial real estate debt investments - CMBS ⁽⁴⁾	Fair value, with unrealized gains (losses) through earnings	521,440	45,254
Securities	Commercial real estate debt investments - credit risk transfer securities	Fair value, with unrealized gains (losses) through earnings	9,065	3,885
Total securities			63,655,674	75,652,396
Loans, net	Residential mortgage loans	Fair value, with unrealized gains (losses) through earnings	2,272,072	345,810
Loans, net	Residential mortgage loan warehouse facility	Fair value, with unrealized gains (losses) through earnings	980	—
Loans, net	Commercial real estate debt and preferred equity, held for investment ⁽⁴⁾	Amortized cost	—	498,081
Loans, net	Corporate debt, held for investment	Amortized cost	1,968,991	2,239,930
Total loans, net			4,242,043	3,083,821
Interests in MSR	Interest in net servicing cash flows	Fair value, with unrealized gains (losses) through earnings	69,316	—
Assets transferred or pledged to securitization vehicles	Agency mortgage-backed securities	Fair value, with unrealized gains (losses) through other comprehensive income	589,873	620,347
Assets transferred or pledged to securitization vehicles	Residential mortgage loans	Fair value, with unrealized gains (losses) through earnings	5,496,435	3,249,251
Assets transferred or pledged to securitization vehicles	Commercial mortgage loans	Fair value, with unrealized gains (losses) through earnings	—	2,166,073
Assets transferred or pledged to securitization vehicles	Commercial mortgage loans	Amortized cost	—	874,349
Total assets transferred or pledged to securitization vehicles			6,086,308	6,910,020
Liabilities				
Repurchase agreements	Repurchase agreements	Amortized cost	54,769,643	64,825,239
Other secured financing	Loans	Amortized cost	903,255	917,876
Debt issued by securitization vehicles	Securities	Fair value, with unrealized gains (losses) through earnings	5,155,633	5,652,982
Participations issued	Participations issued	Fair value, with unrealized gains (losses) through earnings	1,049,066	39,198
Mortgages payable	Loans ⁽⁵⁾	Amortized cost	—	426,256

⁽¹⁾ Receivable for unsettled trades, Principal and interest receivable, Payable for unsettled trades, Interest payable and Dividends payable are accounted for at cost. Interests in MSR are considered financial assets whereas directly held MSR are servicing assets or obligations.

⁽²⁾ Includes Agency pass-through, collateralized mortgage obligation ("CMO") and multifamily securities.

⁽³⁾ Includes interest-only securities and reverse mortgages.

⁽⁴⁾ Excludes Assets of disposal group held for sale at December 31, 2021.

⁽⁵⁾ Excludes Liabilities of disposal group held for sale at December 31, 2021.

5. SECURITIES

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

Impairment – Management evaluates available-for-sale securities and held-to-maturity debt securities for 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) as a Securities Loss Provision and reflected as an Allowance for Credit Losses on Securities on the Consolidated Statements of Financial Condition, while the balance of losses related to other factors will be recognized as a component of Other comprehensive income (loss). When the fair value of a held-to-maturity security is less than the cost, the Company performs an analysis to determine whether it expects to recover the entire cost basis of the security. For the year ended December 31, 2021, the Company recognized a \$0.4 million impairment on a commercial mortgage-backed security that it intended to sell. There was no impairment recognized for the years ended December 31, 2020, and 2019.

Agency Mortgage-Backed Securities - The Company invests in mortgage pass-through certificates, collateralized mortgage obligations and other MBS representing interests in or obligations backed by pools of residential or multifamily mortgage loans and certificates. Many of the underlying loans and certificates are guaranteed by the Government National Mortgage Association (“Ginnie Mae”), the Federal Home Loan Mortgage Corporation (“Freddie Mac”) or the Federal National Mortgage Association (“Fannie Mae”) (collectively, “Agency mortgage-backed securities”).

Agency mortgage-backed securities may include forward contracts for Agency mortgage-backed securities purchases or sales of a generic pool, on a to-be-announced basis. TBA securities without intent to accept delivery (“TBA derivatives”) are accounted for as derivatives as discussed in the “Derivative Instruments” Note.

CRT Securities - CRT securities are risk sharing instruments issued by Fannie Mae and Freddie Mac, and similarly structured transactions arranged by third party market participants. CRT securities are designed to synthetically transfer mortgage credit risk from Fannie Mae and Freddie Mac to private investors.

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

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

Commercial Mortgage-Backed Securities (“Commercial Securities”) - Certain commercial mortgage-backed securities (“CMBS”) are classified as available-for-sale and reported at fair value with any credit loss recognized through an allowance for credit losses and any other unrealized gains and losses reported as a component of Other comprehensive income (loss). Management evaluates its Commercial Securities for impairment at least quarterly. The Company elected the fair value option for all other Commercial Securities, including conduit and credit CMBS, to simplify the accounting where the unrealized gains and losses on these financial instruments are recorded through earnings. As of December 31, 2021, CMBS included in the announced sale of the Company's CRE business have been sold. Prior to their sale, the securities were reported in Assets of disposal group held for sale and Securities, respectively, in the Consolidated Statements of Financial Condition. Refer to the “Sale of Commercial Real Estate Business” Note for additional information on the transaction.

The following represents a rollforward of the activity for the Company's securities, excluding securities transferred or pledged to securitization vehicles, for the year ended December 31, 2021:

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	Agency Securities	Residential Credit Securities	Commercial Securities	Total
	(dollars in thousands)			
Beginning balance January 1, 2021	\$ 74,067,059	\$ 1,504,595	\$ 80,742	\$ 75,652,396
Purchases	18,887,983	2,129,147	534,226	21,551,356
Sales and transfers ⁽¹⁾	(11,392,003)	(156,130)	(83,775)	(11,631,908)
Principal paydowns	(17,860,666)	(880,649)	(181)	(18,741,496)
(Amortization) / accretion	(761,838)	1,478	298	(760,062)
Fair value adjustment	(2,414,930)	1,123	(805)	(2,414,612)
Ending balance December 31, 2021	\$ 60,525,605	\$ 2,599,564	\$ 530,505	\$ 63,655,674

⁽¹⁾ Includes transfers to assets of disposal group held for sale.

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The following tables present the Company's securities portfolio, excluding securities transferred or pledged to securitization vehicles, that was carried at their fair value at December 31, 2021 and 2020:

	December 31, 2021						
	Principal / Notional	Remaining Premium	Remaining Discount	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Agency	(dollars in thousands)						
Fixed-rate pass-through	\$ 54,432,252	\$ 3,008,185	\$ (18,314)	\$ 57,422,123	\$ 1,349,125	\$ (474,643)	\$ 58,296,605
Adjustable-rate pass-through	305,211	1,965	(2,124)	305,052	16,223	(2)	321,273
CMO	114,533	1,888	—	116,421	5,277	—	121,698
Interest-only	1,912,415	456,683	—	456,683	428	(163,197)	293,914
Multifamily ⁽¹⁾	5,671,138	273,553	—	1,453,946	15,330	(16,563)	1,452,713
Reverse mortgages	36,807	3,550	—	40,357	—	(955)	39,402
Total agency securities	\$ 62,472,356	\$ 3,745,824	\$ (20,438)	\$ 59,794,582	\$ 1,386,383	\$ (655,360)	\$ 60,525,605
Residential credit							
Credit risk transfer ⁽²⁾	\$ 924,101	\$ 8,754	\$ (1,176)	\$ 927,555	\$ 9,641	\$ (968)	\$ 936,228
Alt-A	83,213	31	(17,133)	66,111	3,627	(251)	69,487
Prime ⁽³⁾	323,062	9,841	(14,757)	268,117	10,853	(3,529)	275,441
Subprime	170,671	349	(16,111)	154,909	8,285	(118)	163,076
NPL/RPL	987,415	950	(1,698)	986,667	2,739	(5,968)	983,438
Prime jumbo (>=2010 vintage) ⁽⁴⁾	299,783	5,680	(6,410)	172,598	4,272	(4,976)	171,894
Total residential credit securities	\$ 2,788,245	\$ 25,605	\$ (57,285)	\$ 2,575,957	\$ 39,417	\$ (15,810)	\$ 2,599,564
Total Residential Securities	\$ 65,260,601	\$ 3,771,429	\$ (77,723)	\$ 62,370,539	\$ 1,425,800	\$ (671,170)	\$ 63,125,169
Commercial							
Commercial Securities	\$ 533,071	—	\$ (127)	\$ 532,944	\$ 165	\$ (2,604)	\$ 530,505
Total securities	\$ 65,793,672	\$ 3,771,429	\$ (77,850)	\$ 62,903,483	\$ 1,425,965	\$ (673,774)	\$ 63,655,674

	December 31, 2020						
	Principal / Notional	Remaining Premium	Remaining Discount	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Agency	(dollars in thousands)						
Fixed-rate pass-through	\$ 64,800,235	\$ 3,325,020	\$ (22,143)	\$ 68,103,112	\$ 3,200,542	\$ (1,076)	\$ 71,302,578
Adjustable-rate pass-through	455,675	2,869	(3,369)	455,175	22,341	—	477,516
CMO	139,664	2,177	—	141,841	7,926	—	149,767
Interest-only	2,790,537	564,297	—	564,297	3,513	(145,901)	421,909
Multifamily ⁽¹⁾	1,910,384	50,148	(1,057)	1,604,913	59,548	(954)	1,663,507
Reverse mortgages	47,585	4,183	—	51,768	252	(238)	51,782
Total agency investments	\$ 70,144,080	\$ 3,948,694	\$ (26,569)	\$ 70,921,106	\$ 3,294,122	\$ (148,169)	\$ 74,067,059
Residential credit							
Credit risk transfer ⁽²⁾	\$ 544,780	\$ 7,324	\$ (2,430)	\$ 538,941	\$ 3,062	\$ (9,600)	\$ 532,403
Alt-A	93,001	51	(17,368)	75,684	4,644	—	80,328
Prime ⁽³⁾	372,539	7,008	(15,999)	168,861	14,607	(719)	182,749
Subprime	197,779	584	(18,181)	180,182	8,312	(61)	188,433
NPL/RPL	475,108	821	(2,416)	473,513	3,782	(1,448)	475,847
Prime jumbo (>=2010 vintage) ⁽⁴⁾	336,320	7,010	(5,300)	46,406	3,680	(5,251)	44,835
Total residential credit securities	\$ 2,019,527	\$ 22,798	\$ (61,694)	\$ 1,483,587	\$ 38,087	\$ (17,079)	\$ 1,504,595
Total Residential Securities	\$ 72,163,607	\$ 3,971,492	\$ (88,263)	\$ 72,404,693	\$ 3,332,209	\$ (165,248)	\$ 75,571,654
Commercial							
Commercial Securities	\$ 89,858	—	\$ (7,471)	\$ 82,387	\$ 54	\$ (1,699)	\$ 80,742
Total securities	\$ 72,253,465	\$ 3,971,492	\$ (95,734)	\$ 72,487,080	\$ 3,332,263	\$ (166,947)	\$ 75,652,396

⁽¹⁾ Principal/Notional amount includes \$4.5 billion and \$354.6 million of Agency Multifamily interest-only security as of December 31, 2021 and December 31, 2020, respectively.

⁽²⁾ Principal/Notional amount includes \$4.1 million and \$10.7 million of a CRT interest-only security as of December 31, 2021 and December 31, 2020, respectively.

⁽³⁾ Principal/Notional amount includes \$50.0 million and \$194.7 million of Prime interest-only securities as of December 31, 2021 and December 31, 2020, respectively.

⁽⁴⁾ Principal/Notional amount includes \$126.5 million and \$291.6 million of Prime Jumbo interest-only securities as of December 31, 2021 and December 31, 2020, respectively.

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The following table presents the Company's Agency mortgage-backed securities portfolio, excluding securities transferred or pledged to securitization vehicles, by issuing Agency at December 31, 2021 and 2020:

Investment Type	December 31, 2021		December 31, 2020	
	(dollars in thousands)			
Fannie Mae	\$	48,404,991	\$	56,218,033
Freddie Mac		10,880,033		17,735,041
Ginnie Mae		1,240,581		113,985
Total	\$	60,525,605	\$	74,067,059

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

The following table summarizes the Company's Residential Securities, excluding securities transferred or pledged to securitization vehicles, at December 31, 2021 and 2020, according to their estimated weighted average life classifications:

Estimated weighted average life	December 31, 2021		December 31, 2020	
	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost
	(dollars in thousands)			
Less than one year	\$ 253,129	\$ 250,689	\$ 110,203	\$ 109,540
Greater than one year through five years	16,155,017	15,766,307	45,643,138	43,404,877
Greater than five years through ten years	45,470,212	45,102,607	28,509,058	27,610,923
Greater than ten years	1,246,811	1,250,936	1,309,255	1,279,353
Total	\$ 63,125,169	\$ 62,370,539	\$ 75,571,654	\$ 72,404,693

The estimated weighted average lives of the Residential Securities at December 31, 2021 and 2020 in the table above are based upon projected principal prepayment rates. The actual weighted average lives of the Residential Securities could be longer or shorter than projected.

The following table presents the gross unrealized losses and estimated fair value of the Company's Agency mortgage-backed securities, accounted for as available-for-sale where the fair value option has not been elected, by length of time that such securities have been in a continuous unrealized loss position at December 31, 2021 and 2020.

	December 31, 2021			December 31, 2020		
	Estimated Fair Value ⁽¹⁾	Gross Unrealized Losses ⁽¹⁾	Number of Securities ⁽¹⁾	Estimated Fair Value ⁽¹⁾	Gross Unrealized Losses ⁽¹⁾	Number of Securities ⁽¹⁾
	(dollars in thousands)					
Less than 12 months	\$ 22,828,156	\$ (475,064)	571	\$ 777,586	\$ (2,030)	30
12 Months or more	383,815	(10,960)	19	—	—	—
Total	\$ 23,211,971	\$ (486,024)	590	\$ 777,586	\$ (2,030)	30

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

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

During the years ended December 31, 2021 and 2020, the Company disposed of \$11.5 billion and \$51.8 billion, respectively, of Residential Securities. The following table presents the Company's net gains (losses) from the disposal of Residential Securities for the years ended December 31, 2021 and 2020.

	Gross Realized Gains	Gross Realized Losses	Net Realized Gains (Losses)
	(dollars in thousands)		
For the year ended			
December 31, 2021	\$ 102,567	\$ (105,646)	\$ (3,079)
December 31, 2020	\$ 942,450	\$ (305,449)	\$ 637,001

6. LOANS

The Company invests in residential and corporate loans. Loans are classified as either held for investment or held for sale. Loans are eligible to be accounted for under the fair value option. If loans are elected under the fair value option, they are carried at fair value with changes in fair value recognized in earnings. Otherwise, loans held for investment are carried at cost less impairment and loans held for sale are accounted for at the lower of cost or fair value.

Excluding loans transferred or pledged to securitization vehicles and loan warehouse facilities, as of December 31, 2021 and 2020, the Company reported \$2.3 billion and \$345.8 million, respectively, of loans for which the fair value option was elected. If the Company intends to sell or securitize the loans and the securitization vehicle is not expected to be consolidated, the loans are classified as held for sale. If loans are held for sale and the fair value option was not elected, they are accounted for at the lower of cost or fair value. Any origination fees and costs or purchase premiums or discounts are deferred and recognized upon sale. The Company determines the fair value of loans held for sale on an individual loan basis. The carrying value of the Company's residential loans held for sale was \$2.3 million and \$47.0 million at December 31, 2021 and 2020, respectively.

Allowance for Losses – The Company evaluates the need for a loss reserve on each of its loans classified as held-for-investment, which primarily include corporate debt and commercial loans, where the fair value option is not elected. Allowance for loan losses are written off in the period the loans are deemed uncollectible.

Given the unique nature of each underlying borrower and any collateral, the Company assesses an allowance for each individual loan held for investment. An allowance is established at origination or acquisition that reflects management's estimate of the total expected credit loss over the expected life of the loan. In estimating the lifetime expected credit losses, management utilizes a probability of default and loss given default methodology ("Loss Given Default methodology"), which considers projected economic conditions over the reasonable and supportable forecast period. The forecast incorporates primarily market-based assumptions including, but not limited to, forward interest rate curves, unemployment rate estimates and certain indexes sourced from third party vendors. For any remaining period of the expected life of the loan after the reasonable and supportable period, the Company reverts to historical losses on a straight-line basis. Management uses third party vendors' loan pool data for loans with similar risk characteristics to estimate historical losses given the limited loss history of the Company's loan portfolio. Changes in the lifetime expected credit loss are reflected in Loan loss (provision) reversal in the Consolidated Statements of Comprehensive Income (Loss).

For loans experiencing credit deterioration, the Company may use a different methodology to determine the expected credit losses such as a discounted cash flow analysis. For collateral-dependent loans, if foreclosure is probable, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for any selling costs, if applicable. Additionally, the Company may elect the practical expedient for a financial asset for which the repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower is experiencing financial difficulty by measuring the allowance as the difference between the fair value of the collateral, less costs to sell, if applicable, and the amortized cost basis of the financial asset at the reporting date. The Company's commercial loans were collateralized by commercial real estate including, but not limited to, multifamily real estate, office and retail space, hotels and industrial space. At origination, the fair value of the collateral generally exceeded the principal loan balance.

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

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

The Company recorded net loan loss (provisions) reversals of \$145.1 million, (\$147.6) million and (\$16.6) million for the years ended December 31, 2021, 2020 and 2019, respectively. As of December 31, 2021 and 2020, the Company's loan loss allowance was \$27.9 million and \$169.5 million, respectively.

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The following table presents the activity of the Company's loan investments, including loans held for sale and excluding loans transferred or pledged to securitization vehicles and loan warehouse facilities, for the year ended December 31, 2021:

	Residential	Commercial	Corporate Debt	Corporate Debt Held for Sale ⁽¹⁾	Total
	(dollars in thousands)				
Beginning balance January 1, 2021	\$ 345,810	\$ 498,081	\$ 2,239,930	\$ —	\$ 3,083,821
Purchases / originations	6,120,021	126,722	1,572,718	468,483	8,287,944
Sales and transfers ⁽²⁾	(4,084,742)	(608,202)	(1,205,965)	(468,483)	(6,367,392)
Principal payments	(81,677)	(84,929)	(661,941)	—	(828,547)
Gains / (losses) ⁽³⁾	(16,693)	67,784	11,632	—	62,723
(Amortization) / accretion	(10,647)	544	12,617	—	2,514
Ending balance December 31, 2021	\$ 2,272,072	\$ —	\$ 1,968,991	\$ —	\$ 4,241,063

⁽¹⁾ Represents loans the Company originated during the three months ended June 30, 2021 and subsequently syndicated and closed.

⁽²⁾ Includes securitizations, syndications and transfers to securitization vehicles and commercial loan transfers to assets for disposal group held for sale. Includes transfer of residential loans to securitization vehicles with a carrying value of \$3.9 billion during the year ended December 31, 2021.

⁽³⁾ Includes loan loss allowances.

The Company also has off-balance-sheet credit exposures related to unfunded loan commitments, including revolvers, delayed draw term loans and future funding commitments that are not unconditionally cancellable by the Company. The Company utilizes the same methodology in calculating the liability related to the expected credit losses on these exposures as it does for the calculation of the allowance for loan losses. In determining the estimate of credit losses for off-balance-sheet credit exposures, the Company will consider the contractual period in which the entity is exposed to credit risk and the likelihood that funding will occur, if material. Estimated credit losses for off-balance-sheet credit exposures are included in Other liabilities on the Company's Consolidated Statements of Financial Condition.

Residential

The Company's residential mortgage loans are primarily comprised of performing adjustable-rate and fixed-rate whole loans. The Company's residential loans are accounted for under the fair value option with changes in fair value reflected in Net unrealized gains (losses) on instruments measured at fair value through earnings in the Consolidated Statements of Comprehensive Income (Loss). Additionally, the Company consolidated a collateralized financing entity that securitized prime adjustable-rate jumbo residential mortgage loans until November 2021, when the Company exercised its clean-up call and liquidated the securitization trust. The Company also consolidates securitization trusts in which it had purchased subordinated securities because it also has certain powers and rights to direct the activities of such trusts. Refer to the "Variable Interest Entities" Note for further information related to the Company's consolidated residential mortgage loan trusts.

The following table presents the fair value and the unpaid principal balances of the residential mortgage loan portfolio, including loans transferred or pledged to securitization vehicles and excluding loan warehouse facilities, at December 31, 2021 and 2020:

	December 31, 2021	December 31, 2020
	(dollars in thousands)	
Fair value	\$ 7,768,507	\$ 3,595,061
Unpaid principal balance	\$ 7,535,855	\$ 3,482,865

The following table provides information regarding the line items and amounts recognized in the Consolidated Statements of Comprehensive Income (Loss) for December 31, 2021 and 2020 for these investments, excluding loan warehouse facilities:

	For the Years Ended	
	December 31, 2021	December 31, 2020
	(dollars in thousands)	
Interest income	\$ 182,325	\$ 170,259
Net gains (losses) on disposal of investments and other	(37,212)	(38,372)
Net unrealized gains (losses) on instruments measured at fair value through earnings	19,545	37,693
Total included in net income (loss)	\$ 164,658	\$ 169,580

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The following table provides the geographic concentrations based on the unpaid principal balances at December 31, 2021 and 2020 for the residential mortgage loans, including loans transferred or pledged to securitization vehicles:

Geographic Concentrations of Residential Mortgage Loans			
December 31, 2021		December 31, 2020	
Property location	% of Balance	Property location	% of Balance
California	50.2%	California	48.9%
New York	10.9%	New York	14.0%
Florida	6.1%	Florida	6.0%
All other (none individually greater than 5%)	32.8%	All other (none individually greater than 5%)	31.1%
Total	100.0%		100.0%

The following table provides additional data on the Company's residential mortgage loans, including loans transferred or pledged to securitization vehicles, at December 31, 2021 and 2020:

	December 31, 2021		December 31, 2020	
	Portfolio Range	Portfolio Weighted Average	Portfolio Range	Portfolio Weighted Average
(dollars in thousands)				
Unpaid principal balance	\$1 - \$4,382	\$513	\$1 - \$3,448	\$473
Interest rate	0.75% - 9.24%	4.04%	0.50% - 9.24%	4.89%
Maturity	7/1/2029 - 12/1/2061	12/22/2050	7/1/2029 - 1/1/2061	4/17/2046
FICO score at loan origination	604 - 831	762	505 - 829	755
Loan-to-value ratio at loan origination	8% - 103%	66%	8% - 104%	67%

At December 31, 2021 and 2020, approximately 16% and 37%, respectively, of the carrying value of the Company's residential mortgage loans, including loans transferred or pledged to securitization vehicles, were adjustable-rate.

During the year ended December 31, 2021, the Company participated in an arrangement that provided a residential mortgage loan warehouse facility to a third-party originator. The Company has elected to apply the fair value option to this lending facility in order to simplify the accounting and keep the accounting consistent with other residential credit financial instruments with similar characteristics. At December 31, 2021, the fair value and carrying value of this warehouse facility was approximately \$1.0 million and is reported as Loans, net in the Consolidated Statements of Financial Condition. As of December 31, 2021, the lending facility was not on nonaccrual status nor past due.

Commercial

As of December 31, 2021, commercial real estate loans are reported in Assets of disposal group held for sale in the Consolidated Statements of Financial Condition and classified as held for sale. As of December 31, 2020, commercial real estate loans are reported in Loans, net in the Consolidated Statements of Financial Condition and classified as held for investment. Refer to the "Sale of Commercial Real Estate Business" Note for additional information on the transaction.

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

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

The Company's commercial loans are collateral-dependent and, as such, for loans experiencing credit deterioration, the Company is required to record an allowance based upon the fair value of the underlying collateral if foreclosure is probable or if the practical expedient is elected. For the year ended December 31, 2021, the Company reversed the loan loss allowance

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resulting in a loan loss reversal on impaired commercial loans of \$67.4 million as the loans are classified as held for sale and are carried at lower of cost or fair value. For the year ended December 31, 2020, the Company recorded a loan loss (provision) on impaired commercial loans of (\$78.4) million with a principal balance and carrying value, net of allowances of \$181.2 million and \$113.6 million, respectively, based upon the fair value of the underlying collateral. The Company uses a discounted cash flow or market based valuation technique based upon the underlying property to project property cash flows. In projecting these cash flows, the Company reviewed the borrower financial statements, rent rolls, economic trends and other factors management deems important. These nonrecurring fair value measurements are considered to be in level three of the fair value measurement hierarchy as there are unobservable inputs, which are significant to the overall fair value.

For the year ended December 31, 2021, the Company reversed the loan loss allowance based upon its Loss Given Default methodology resulting in a loan loss reversal on commercial loans of \$62.5 million as the loans were classified as held for sale and carried at lower of cost or fair value. For the year ended December 31, 2020, the Company recorded a net loan loss (provision) of (\$54.8) million based upon its Loss Given Default methodology. As a result of the implementation of the Loss Given Default methodology under the modified retrospective method, a cumulative effect loan loss allowance of \$7.8 million was recorded on January 1, 2020.

During the year ended December 31, 2020, the Company modified five commercial loans with a carrying value of \$243.8 million at December 31, 2020. The maturity dates on four commercial loans were extended and one commercial loan was granted a 120 day forbearance. Additionally, as part of the restructuring two loans had partial paydowns totaling \$4.5 million. The loan loss allowance recorded for these commercial loans was \$23.6 million at December 31, 2020. Future funding commitments on the restructured loans total \$4.1 million at December 31, 2020.

At December 31, 2020, the amortized cost basis of commercial loans on nonaccrual status was \$46.8 million. For the year ended December 31, 2020, the Company recognized interest income on commercial loans on nonaccrual status of \$2.1 million.

At December 31, 2020, the Company had unfunded commercial real estate loan commitments of \$99.3 million. At December 31, 2020, the liability related to the expected credit losses on the unfunded commercial loan commitments was \$5.1 million.

At December 31, 2020, approximately 94% of the carrying value of the Company's CRE Debt and Preferred Equity Investments, including loans transferred or pledged to securitization vehicles were adjustable-rate.

The following tables represent a rollforward of the activity for the Company's commercial real estate investments held for sale at December 31, 2021 and held for investment at December 31, 2020:

December 31, 2021				
	Senior Mortgages	Senior Securitized Mortgages ⁽¹⁾	Mezzanine Loans	Total
(dollars in thousands)				
Beginning balance (January 1, 2021) ⁽²⁾	\$ 373,925	\$ 874,349	\$ 124,156	\$ 1,372,430
Originations & advances (principal)	127,481	69	644	128,194
Principal payments	(75,007)	(87,584)	(9,922)	(172,513)
Transfers and sales ⁽³⁾	(436,408)	(849,469)	(171,794)	(1,457,671)
Net (increase) decrease in origination fees	(1,403)	—	—	(1,403)
Amortization of net origination fees	501	486	43	1,030
Allowance for loan losses				
Beginning allowance	(10,911)	(62,149)	(56,873)	(129,933)
Current period (allowance) reversal	10,911	62,149	56,873	129,933
Ending allowance	—	—	—	—
Net carrying value (December 31, 2021)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

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December 31, 2020				
	Senior Mortgages	Senior Securitized Mortgages ⁽¹⁾	Mezzanine Loans	Total
(dollars in thousands)				
Net carrying value (January 1, 2020)	\$ 499,690	\$ 936,378	\$ 182,726	\$ 1,618,794
Originations & advances (principal)	206,090	—	12,374	218,464
Principal payments	(77,344)	(144,308)	(78)	(221,730)
Principal write off	—	—	(7,000)	(7,000)
Transfers ⁽³⁾	(245,120)	142,621	(7,100)	(109,599)
Net (increase) decrease in origination fees	(1,055)	(653)	(80)	(1,788)
Realized gain	204	—	—	204
Amortization of net origination fees	2,371	2,460	187	5,018
Allowance for loan losses				
Beginning Allowance, prior to CECL adoption	—	—	(12,703)	(12,703)
Impact of adopting CECL	(2,263)	(4,166)	(1,336)	(7,765)
Current period provision	(8,648)	(57,983)	(66,521)	(133,152)
Write offs	—	—	23,687	23,687
Ending allowance	(10,911)	(62,149)	(56,873)	(129,933)
Net carrying value (December 31, 2020)	\$ 373,925	\$ 874,349	\$ 124,156	\$ 1,372,430

⁽¹⁾ Represents assets of consolidated VIEs held for sale at December 31, 2021.

⁽²⁾ Excludes loan loss allowances.

⁽³⁾ Includes transfers to securitization vehicles and for the year ended December 31, 2021, transfers to assets for disposal group held for sale.

Corporate Debt

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

The Company's internal risk rating rubric for corporate debt has nine categories as depicted below:

Risk Rating - Corporate Debt	Description
1-5 / Performing	Meets all present contractual obligations.
6 / Performing - Closely Monitored	Meets all present contractual obligations but exhibits a defined weakness in either leverage or liquidity, but not both. Loans at this rating will require closer monitoring, but where we expect no loss of interest or principal.
7 / Substandard	A loan that has a defined weakness in either leverage and/or liquidity, and which may require substantial changes to strengthen the asset. Loans at this rating level have a higher probability of loss, although no determination of the amount or timing of a loss is yet possible.
8 / Doubtful	A loan that has missed a scheduled principal or interest payment or is otherwise deemed a non-earning account. The probability of loss is increasingly certain due to significant performance issues.
9 / Loss	Considered uncollectible.

Management assesses each loan at least quarterly and assigns an internal risk rating based on its evaluation of the most recent financial information produced by the borrower and consideration of economic conditions. See below for a tabular disclosure of the amortized cost basis of the Company's corporate debt held for investment by year of origination and internal risk rating.

There was no provision for loan loss recorded on corporate loans using a discounted cash flow methodology for the year ended December 31, 2021. For the year ended December 31, 2020, the Company recorded a loan loss (provision) of (\$4.5) million on impaired corporate loans using a discounted cash flow methodology. During the year ended December 31, 2020, the loan was restructured and the Company received \$2.8 million of second lien debt and \$4.8 million of equity. As a result of the restructuring, \$19.6 million of first lien debt was written off and the related allowance of \$11.9 million was charged off. For the year ended December 31, 2019, the Company recorded a loan loss provision of \$7.4 million on a corporate loan with a principal balance and carrying value of \$19.6 million and \$12.2 million, respectively.

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For the year ended December 31, 2021, the Company recorded a net loan loss reversal on corporate loans of \$11.6 million, based upon its Loss Given Default methodology. For the year ended December 31, 2020, the Company recorded a net loan loss (provision) on corporate loans of (\$9.9) million, based upon its Loss Given Default methodology. As a result of the implementation of the Loss Given Default methodology under the modified retrospective method, a cumulative effect loan loss allowance on corporate loans of \$29.7 million was recorded on January 1, 2020.

As of December 31, 2021 and December 31, 2020, no corporate loans were on nonaccrual status.

At December 31, 2021 and December 31, 2020, the Company had unfunded corporate loan commitments of \$278.9 million and \$87.3 million, respectively. At December 31, 2021 and December 31, 2020, the liability related to the expected credit losses on the unfunded corporate loan commitments was \$2.3 million and \$0.7 million, respectively.

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The Company invests in corporate loans through its Annaly Middle Market Lending Group. The industry and rate attributes of the portfolio at December 31, 2021 and 2020 are as follows:

	Industry Dispersion	
	December 31, 2021	December 31, 2020
	Total ⁽¹⁾	Total ⁽¹⁾
	(dollars in thousands)	
Computer Programming, Data Processing & Other Computer Related Services	\$ 437,257	\$ 483,142
Management & Public Relations Services	263,187	300,869
Industrial Inorganic Chemicals	156,292	156,391
Metal Cans & Shipping Containers	118,204	115,670
Public Warehousing & Storage	94,179	132,397
Miscellaneous Industrial & Commercial	93,619	77,163
Electronic Components & Accessories	92,261	78,129
Surgical, Medical & Dental Instruments & Supplies	80,786	83,161
Miscellaneous Health & Allied Services, not elsewhere classified	64,133	58,857
Research, Development & Testing Services	59,311	62,008
Offices & Clinics of Doctors of Medicine	50,017	104,781
Engineering, Architectural & Surveying	49,088	77,308
Insurance Agents, Brokers & Service	43,598	67,193
Electrical Work	42,617	41,128
Telephone Communications	42,589	58,450
Miscellaneous Equipment Rental & Leasing	32,346	49,587
Medical & Dental Laboratories	30,199	30,711
Home Health Care Services	28,660	28,587
Metal Forgings & Stampings	27,483	27,523
Legal Services	26,105	26,399
Petroleum & Petroleum Products	21,434	33,890
Sanitary Services	20,453	—
Grocery Stores	19,745	22,895
Coating, Engraving & Allied Services	17,705	19,484
Chemicals & Allied Products	14,657	14,686
Mailing, Reproduction, Commercial Art & Photography & Stenographic	12,388	12,733
Machinery, Equipment & Supplies	10,814	12,096
Offices & Clinics of Other Health Practitioners	10,083	9,730
Schools & Educational Services, not elsewhere classified	9,781	29,040
Miscellaneous Business Services	—	12,980
Drugs	—	12,942
Total	\$ 1,968,991	\$ 2,239,930

⁽¹⁾ All middle market lending positions are floating rate.

The table below reflects the Company's aggregate positions by their respective place in the capital structure of the borrowers at December 31, 2021 and 2020.

	December 31, 2021	December 31, 2020
	(dollars in thousands)	
First lien loans	\$ 1,391,217	\$ 1,489,125
Second lien loans ⁽¹⁾	577,774	750,805
Total	\$ 1,968,991	\$ 2,239,930

⁽¹⁾ Includes mezzanine positions

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The following tables represent a rollforward of the activity for the Company's corporate debt investments held for investment at December 31, 2021 and December 31, 2020:

December 31, 2021			
	First Lien	Second Lien	Total
	(dollars in thousands)		
Beginning balance (January 1, 2021) ⁽¹⁾	\$ 1,489,125	\$ 750,805	\$ 2,239,930
Originations & advances	1,506,705	66,013	1,572,718
Sales and transfers ⁽²⁾	(1,122,275)	(83,690)	(1,205,965)
Principal payments	(492,884)	(169,057)	(661,941)
Amortization & accretion of (premium) discounts	9,120	3,497	12,617
Allowance for loan losses			
Beginning allowance	(18,767)	(20,785)	(39,552)
Current period (allowance) reversal	1,426	10,206	11,632
Ending allowance	(17,341)	(10,579)	(27,920)
Net carrying value (December 31, 2021)	\$ 1,391,217	\$ 577,774	\$ 1,968,991

December 31, 2020			
	First Lien	Second Lien	Total
	(dollars in thousands)		
Beginning balance (January 1, 2020) ⁽¹⁾	\$ 1,403,503	\$ 748,710	\$ 2,152,213
Originations & advances	834,211	227,433	1,061,644
Sales ⁽²⁾	(273,887)	(79,203)	(353,090)
Principal payments	(444,759)	(132,000)	(576,759)
Amortization & accretion of (premium) discounts	8,374	3,832	12,206
Loan restructuring	(19,550)	2,818	(16,732)
Allowance for loan losses			
Beginning allowance, prior to CECL adoption	(7,363)	—	(7,363)
Impact of adopting CECL	(10,787)	(18,866)	(29,653)
Current period (allowance) reversal	(12,510)	(1,919)	(14,429)
Write offs	11,893	—	11,893
Ending allowance	(18,767)	(20,785)	(39,552)
Net carrying value (December 31, 2020)	\$ 1,489,125	\$ 750,805	\$ 2,239,930

⁽¹⁾ Excludes loan loss allowances.

⁽²⁾ Includes syndications.

The following table provides the amortized cost basis of corporate debt held for investment as of December 31, 2021 by vintage year and internal risk rating.

Amortized Cost Basis by Risk Rating and Vintage ⁽¹⁾							
Risk Rating	Vintage						
	Total	2021	2020	2019	2018	2017	2016
	(dollars in thousands)						
1-5 / Performing	\$1,799,355	\$ 565,619	\$ 374,894	\$ 219,028	\$ 477,834	\$ 138,660	\$ 23,320
6 / Performing - Closely Monitored	64,441	22,036	26,105	16,300	—	—	—
7 / Substandard	105,195	—	10,814	9,280	85,101	—	—
8 / Doubtful	—	—	—	—	—	—	—
9 / Loss	—	—	—	—	—	—	—
Total	\$1,968,991	\$ 587,655	\$ 411,813	\$ 244,608	\$ 562,935	\$ 138,660	\$ 23,320

⁽¹⁾ The amortized cost basis excludes accrued interest and includes deferred loan fees on unfunded loans. As of December 31, 2021, the Company had \$11.2 million of accrued interest receivable on corporate loans, which is reported in Principal and interest receivable in the Consolidated Statements of Financial Condition, and \$2.6 million of deferred loan fees on unfunded loans, which is reported in Loans, net in the Consolidated Statements of Financial Condition.

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7. MORTGAGE SERVICING RIGHTS

The Company owns variable interests in entities that invest in MSR and Interests in MSR. Refer to the “Variable Interest Entities” Note for a detailed discussion on this topic.

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

Interests in MSR represent agreements to purchase all, or a component of, net servicing cash flows. A third party acts as a master servicer for the loans providing the net servicing cash flows represented by the Interests in MSR. The Company accounts for its Interests in MSR at fair value with change in fair value presented in Net unrealized gains (losses) on instruments measured at fair value through earnings in the Consolidated Statements of Comprehensive Income (Loss). Cash flows received for Interests in MSR are recorded in Other income (loss) in the Consolidated Statements of Comprehensive Income (Loss).

The following table presents activity related to MSR and Interests in MSR for the years ended December 31, 2021 and 2020:

Mortgage Servicing Rights	December 31, 2021		December 31, 2020	
	(dollars in thousands)			
Fair value, beginning of period	\$	100,895	\$	378,078
Purchases ⁽¹⁾		468,196		—
Sales		(82,176)		(72,160)
Change in fair value due to				
Changes in valuation inputs or assumptions ⁽²⁾		120,879		(107,517)
Other changes, including realization of expected cash flows		(63,232)		(97,506)
Fair value, end of period	\$	544,562	\$	100,895

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

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

Interests in MSR	December 31, 2021	
	(dollars in thousands)	
Beginning balance	\$	—
Purchases ⁽¹⁾		65,107
Gain (loss) included in net income		4,209
Ending balance December 31, 2021	\$	69,316

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

For the years ended December 31, 2021 and 2020, the Company recognized \$56.8 million and \$66.6 million of net servicing income from MSR in Other income (loss) in the Consolidated Statements of Comprehensive Income (Loss).

For the year ended December 31, 2021, the Company recognized \$7.6 million and for the year ended December 31, 2020, the Company did not recognize net income from Interests in MSR in Other income (loss) in the Consolidated Statements of Comprehensive Income (Loss).

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8. VARIABLE INTEREST ENTITIES

At December 31, 2021, commercial trusts, commercial securitizations and the collateralized loan obligation are reported in Assets of disposal group held for sale in the Consolidated Statements of Financial Condition. Refer to the “Sale of Commercial Real Estate Business” Note for additional information.

Multifamily Securitization

In November 2019, the Company repackaged Fannie Mae guaranteed multifamily mortgage-backed securities with a principal cut-off balance of \$1.0 billion and retained interest-only securities with a notional balance of \$1.0 billion and senior securities with a principal balance of \$28.5 million. In March 2020, the Company repackaged Fannie Mae guaranteed multifamily mortgage-backed securities with a principal cut-off balance of \$0.5 billion and retained interest-only securities with a notional balance of \$0.5 billion. At the inception of the arrangements, the Company determined that it was the primary beneficiary based upon its involvement in the design of these VIEs and through the retention of a significant variable interest in the VIEs. The Company elected the fair value option for the financial liabilities of these VIEs in order to simplify the accounting; however, the financial assets were not eligible for the fair value option as it was not elected at purchase. In 2020, the Company deconsolidated the 2019 multifamily VIE since it sold all of its interest-only securities and no longer retains a significant variable interest in the entity. As a result of the deconsolidation of this VIE, the Company derecognized approximately \$1.2 billion of securities and approximately \$1.1 billion of debt issued by securitization vehicles and recognized a realized gain of \$104.8 million, which is included in Net gains (losses) on disposal of investments and other in the Consolidated Statements of Comprehensive Income (Loss). The Company incurred \$1.1 million of costs in connection with the 2020 multifamily securitization that were expensed as incurred during the year ended December 31, 2020.

Residential Trusts

The Company consolidated a securitization trust, which is included in “Residential Trusts” in the table for the year ended December 31, 2020 below, that issued residential mortgage-backed securities that were collateralized by residential mortgage loans that had been transferred to the trust by one of the Company’s subsidiaries. The Company owned the subordinate securities, and a subsidiary of the Company continued to be the master servicer. As such, the Company was deemed to be the primary beneficiary of the residential mortgage trust and consolidated the entity. The Company elected the fair value option for the financial assets and liabilities of this VIE, but did not elect to apply the practical expedient under ASU 2014-13 as prices of both the financial assets and financial liabilities of the residential mortgage trust are available from third party pricing services. The contractual principal amount of the residential mortgage trust’s debt held by third parties was zero and \$23.0 million at December 31, 2021 and 2020, respectively. In November 2021, the Company exercised its clean-up call and liquidated the securitization trust. There was no gain or loss recorded upon deconsolidation.

Residential Securitizations

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

OBX Trusts

The entities in the table below are referred to collectively as the “OBX Trusts.” These securitizations represent financing transactions which provide non-recourse financing to the Company that are collateralized by residential mortgage loans purchased by the Company.

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Securitization	Date of Closing	Face Value at Closing
(dollars in thousands)		
OBX 2018-1	March 2018	\$ 327,162
OBX 2018-EXP1	August 2018	\$ 383,451
OBX 2018-EXP2	October 2018	\$ 384,027
OBX 2019-INV1	January 2019	\$ 393,961
OBX 2019-EXP1	April 2019	\$ 388,156
OBX 2019-INV2	June 2019	\$ 383,760
OBX 2019-EXP2	July 2019	\$ 463,405
OBX 2019-EXP3	October 2019	\$ 465,492
OBX 2020-INV1	January 2020	\$ 374,609
OBX 2020-EXP1	February 2020	\$ 467,511
OBX 2020-EXP2	July 2020	\$ 489,352
OBX 2020-EXP3	September 2020	\$ 514,609
OBX 2021-NQM1	March 2021	\$ 257,135
OBX 2021-J1	April 2021	\$ 353,840
OBX 2021-NQM2	June 2021	\$ 376,004
OBX 2021-J2	July 2021	\$ 382,483
OBX 2021-NQM3	August 2021	\$ 356,474
OBX 2021-INV1	September 2021	\$ 320,199
OBX 2021-J3	October 2021	\$ 453,650
OBX 2021-INV2	October 2021	\$ 343,571
OBX 2021-INV3	November 2021	\$ 470,576
OBX 2021-NQM4	November 2021	\$ 542,836

As of December 31, 2021 and 2020, a total carrying value of \$4.6 billion and \$2.6 billion, respectively, of bonds were held by third parties and the Company retained \$780.8 million and \$653.0 million, respectively, of mortgage-backed securities, which were eliminated in consolidation. The Company is deemed to be the primary beneficiary and consolidates the OBX Trusts because it has power to direct the activities that most significantly impact the OBX Trusts' performance and holds a variable interest that could be potentially significant to these VIEs. The Company has elected the fair value option for the financial assets and liabilities of these VIEs, but has not elected the practical expedient under ASU 2014-13 as prices of both the financial assets and financial liabilities of the residential mortgage trusts are available from third party pricing services. During the years ended December 31, 2021 and 2020, the Company incurred \$5.6 million and \$7.2 million, respectively, of costs in connection with these securitizations that were expensed as incurred. The contractual principal amount of the OBX Trusts' debt held by third parties was \$4.6 billion and \$2.5 billion at December 31, 2021 and 2020, respectively.

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

Credit Facility VIEs

In June 2016, a consolidated subsidiary of the Company entered into a credit facility with a third party financial institution. As of December 31, 2021 and 2020, the borrowing limit on this facility was \$675.0 million and \$625.0 million, respectively. The subsidiary was deemed to be a VIE and the Company was determined to be the primary beneficiary due to its role as collateral manager and because it holds a variable interest in the entity that could potentially be significant to the entity. The Company has pledged as collateral for this facility corporate loans with a carrying amount of \$692.6 million and \$786.9 million at December 31, 2021 and 2020, respectively. The transfers did not qualify for sale accounting and are reflected as an intercompany secured borrowing that is eliminated upon consolidation. At December 31, 2021 and 2020, the subsidiary had an intercompany receivable of \$433.3 million and \$441.1 million, respectively, which eliminates upon consolidation and a secured financing of \$433.3 million and \$441.1 million, respectively, to the third party financial institution.

In July 2017, a consolidated subsidiary of the Company entered into a credit facility with a third party financial institution. As of December 31, 2021 and 2020, the borrowing limit on this facility was \$400.0 million and \$320.0 million, respectively. The subsidiary was deemed to be a VIE and the Company was determined to be the primary beneficiary due to its role as servicer and because it holds a variable interest in the entity that could potentially be significant to the entity. The Company has transferred corporate loans to the subsidiary with a carrying amount of \$402.9 million and \$400.4 million at December 31, 2021 and 2020, respectively, which continue to be reflected in the Company's Consolidated Statements of Financial Condition under

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Loans, net. At December 31, 2021 and 2020, the subsidiary had a secured financing of \$238.2 million and \$209.7 million, respectively, to the third party financial institution.

In January 2019, a consolidated subsidiary of the Company entered into a credit facility with a third party financial institution. As of December 31, 2021 and 2020, the borrowing limit on this facility was \$400.0 million and \$300.0 million, respectively. The Company has pledged as collateral for this facility corporate loans with a carrying amount of \$368.0 million and \$409.2 million at December 31, 2021 and 2020, respectively. As of December 31, 2021 and 2020, the Borrower had a secured financing of \$231.8 million and \$236.6 million, respectively, to the third party financial institution.

MSR VIEs

The Company owns variable interests in an entity that invests in MSR and has structured its operations, funding and capitalization into pools of assets and liabilities, each referred to as a “silo.” Owners of variable interests in a given silo are entitled to all of the returns and subjected to the risk of loss on the investments and operations of that silo and have no substantive recourse to the assets of any other silo. While the Company previously held 100% of the voting interests in this entity, in August 2017, the Company sold 100% of such interests, and entered into an agreement with the entity’s affiliated portfolio manager giving the Company the power over the silo in which it owns all of the beneficial interests. As a result, the Company is considered to be the primary beneficiary and consolidates this silo.

The Company also owns variable interests in entities that invest in Interests in MSR. These entities are VIEs because they do not have sufficient equity at risk to finance their activities and the Company is the primary beneficiary because it has power to remove the decision makers with or without cause and holds substantially all of the variable interests in the entities.

The Company’s exposure to the obligations of its VIEs is generally limited to the Company’s investment in the VIEs of \$2.4 billion at December 31, 2021. Assets of the VIEs may only be used to settle obligations of the VIEs. Creditors of the VIEs have no recourse to the general credit of the Company. The Company is not contractually required to provide and has not provided any form of financial support to the VIEs. No gains or losses were recognized upon consolidation of existing VIEs. Interest income and expense are recognized using the effective interest method.

The statements of financial condition of the Company’s VIEs, excluding the multifamily securitization, credit facility VIEs and OBX Trusts as the transfers of loans or securities did not meet the criteria to be accounted for as sales, that are reflected in the Company’s Consolidated Statements of Financial Condition at December 31, 2021 and 2020 are as follows:

December 31, 2021	
MSR VIEs	
Assets	(dollars in thousands)
Cash and cash equivalents	\$ 16,187
Loans	2,347
Mortgage servicing rights	7,254
Interests in MSR	69,316
Other assets	10,406
Total assets	\$ 105,510
Liabilities	
Payable for unsettled trades	1,911
Other liabilities	14,582
Total liabilities	\$ 16,493

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December 31, 2020			
	Commercial Trusts	Residential Trusts	MSR VIEs
(dollars in thousands)			
Assets			
Cash and cash equivalents	\$ —	\$ —	\$ 22,241
Loans	—	—	47,048
Assets transferred or pledged to securitization vehicles	2,166,073	40,035	—
Mortgage servicing rights	—	—	100,895
Principal and interest receivable	5,509	226	—
Total assets	\$ 2,171,582	\$ 40,261	\$ 170,184
Liabilities			
Debt issued by securitization vehicles (non-recourse)	\$ 1,836,785	\$ 23,351	\$ —
Other secured financing	—	—	30,420
Payable for unsettled trades	—	—	3,076
Interest payable	1,697	55	—
Other liabilities	—	246	13,345
Total liabilities	\$ 1,838,482	\$ 23,652	\$ 46,841

Corporate Debt Transfers

The Company manages parallel funds investing in senior secured first and second lien corporate loans (the “Fund Entities”). The Fund Entities are considered VIEs because the investors do not have substantive liquidation, kick-out or participating rights. The fees that the Company earns are not considered variable interests of the VIE. The Company is not the primary beneficiary of the Fund Entities and therefore does not consolidate the Fund Entities. During the year ended December 31, 2021, the Company transferred \$316.9 million of loans for cash. The loan transfers were accounted for as sales.

Residential Credit Fund

The Company manages a fund investing in participations in residential mortgage loans. The residential credit fund is deemed to be a VIE because the entity does not have sufficient equity at risk to permit the legal entity to finance its activities without additional subordinated financial support provided by any parties, including equity holders, as capital commitments are not considered equity at risk. The Company is not the primary beneficiary and does not consolidate the residential credit fund as its only interest in the fund is the management and performance fees that it earns, which are not considered variable interests in the entity. As of December 31, 2021 and 2020 the Company had outstanding participating interests in residential mortgage loans of \$1.0 billion and \$39.2 million, respectively. These transfers do not meet the criteria for sale accounting and are accounted for as secured borrowings, thus the residential loans are reported as Loans, net and the associated liability is reported as Participations issued in the Consolidated Statements of Financial Condition. The Company elected to fair value the participations issued through earnings to more accurately reflect the economics of the transfers as the underlying loans are carried at fair value through earnings.

9. SALE OF COMMERCIAL REAL ESTATE BUSINESS

On March 25, 2021, the Company entered into a definitive agreement to sell substantially all of the assets that comprise its CRE business to Slate Asset Management L.P. and Slate Grocery REIT (together, “Slate”) for \$2.33 billion. The transaction includes equity interests, loan assets and associated liabilities, and CMBS (other than commercial CRTs). The Company also intends to sell nearly all of the remaining CRE business assets that are not included in the transaction with Slate. A real estate property that was held for sale, which is not included in the transaction with Slate, was sold during the year ended December 31, 2021 and resulted in the recognition of a gain of \$4.8 million in Business divestiture-related gains (losses) in the Consolidated Statements of Comprehensive Income (Loss). In connection with the execution of the definitive agreement to sell the CRE business, during the year ended December 31, 2021, the Company performed an assessment of goodwill, which was related to the Company’s 2013 acquisition of CreXus Investment Corp., and recognized an impairment of \$71.8 million. As a result of classifying the loans as held for sale, the previously recognized allowance for loan losses of \$135.0 million, which includes \$5.1 million on unfunded loan commitments, was reversed during the three months ended March 31, 2021. During the year ended December 31, 2021, the majority of assets held for sale and the associated liabilities were transferred to Slate, with the remaining assets expected to be transferred by the end of the first quarter of 2022 subject to regulatory approvals. The pretax income (loss) of the CRE business was (\$31.6) million for the year ended December 31, 2021 and (\$99.6) million for the year

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ended December 31, 2020. Certain employees who primarily supported the CRE business joined Slate in connection with the sale.

The carrying value of the total assets in the disposal group was \$194.1 million at December 31, 2021, primarily real estate, net. The carrying value of total liabilities in the disposal group was \$154.9 million at December 31, 2021, primarily mortgages payable on the related real estate held for sale.

10. DERIVATIVE INSTRUMENTS

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

In connection with the Company’s investment/market rate risk management strategy, the Company economically hedges a portion of its interest rate risk by entering into derivative financial instrument contracts, which include interest rate swaps, swaptions and futures contracts. The Company may also enter into TBA derivatives, MBS options and U.S. Treasury or Eurodollar futures contracts, certain forward purchase commitments and credit derivatives to economically hedge its exposure to market risks. The purpose of using derivatives is to manage overall portfolio risk with the potential to generate additional income for distribution to stockholders. These derivatives are subject to changes in market values resulting from changes in interest rates, volatility, Agency mortgage-backed security spreads to U.S. Treasuries and market liquidity. The use of derivatives also creates exposure to credit risk relating to potential losses that could be recognized if the counterparties to these instruments fail to perform their obligations under the stated contract. Additionally, the Company may have to pledge cash or assets as collateral for the derivative transactions, the amount of which may vary based on the market value and terms of the derivative contract. In the case of market agreed coupon (“MAC”) interest rate swaps, the Company may make or receive a payment at the time of entering into such interest rate swaps, which represents fair value of these swaps, to compensate for the out of market nature of such interest rate swaps. Subsequent changes in fair value from inception of these interest rate swaps are reflected within Unrealized gains (losses) on interest rate swaps in the Consolidated Statements of Comprehensive Income (Loss). Similar to other interest rate swaps, the Company may have to pledge cash or assets as collateral for the MAC interest rate swap transactions. In the event of a default by the counterparty, the Company could have difficulty obtaining its pledged collateral as well as receiving payments in accordance with the terms of the derivative contracts.

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

The Company also maintains collateral in the form of cash on margin with counterparties to its interest rate swaps and other derivatives. In accordance with a clearing organization’s rulebook, the Company presents the fair value of centrally cleared interest rate swaps net of variation margin pledged under such transactions. At December 31, 2021 and 2020, (\$393.4) million and \$1.5 billion, respectively, of variation margin was reported as an adjustment to interest rate swaps, at fair value.

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

Swaptions – Swaptions are purchased or sold to mitigate the potential impact of increases or decreases in interest rates. Interest rate swaptions provide the option to enter into an interest rate swap agreement for a predetermined notional amount, stated term and pay and receive interest rates in the future. The Company’s swaptions are not centrally cleared. The premium paid or received for swaptions is reported as an asset or liability in the Consolidated Statements of Financial Condition. If a swaption expires unexercised, the realized gain (loss) on the swaption would be equal to the premium received or paid. If the Company sells or exercises a swaption, the realized gain (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.

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

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

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

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

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

Credit Derivatives – The Company may enter into credit derivatives referencing a commercial mortgage-backed securities index, such as the CMBX index, and synthetic total return swaps.

The table below summarizes fair value information about our derivative assets and liabilities at December 31, 2021 and 2020:

Derivatives Instruments	December 31, 2021		December 31, 2020	
Assets	(dollars in thousands)			
Interest rate swaptions	\$	105,710	\$	74,470
TBA derivatives		52,693		96,109
Futures contracts		9,028		506
Purchase commitments		1,779		49
Credit derivatives ⁽¹⁾		1,160		—
	\$	170,370	\$	171,134
Liabilities				
Interest rate swaps	\$	747,036	\$	1,006,492
TBA derivatives		3,916		—
Futures contracts		129,134		19,413
Purchase commitments		870		—
Credit derivatives ⁽¹⁾		581		7,440
	\$	881,537	\$	1,033,345

⁽¹⁾ The maximum potential amount of future payments is the notional amount of credit derivatives in which the Company sold protection of \$400.0 million and \$504.0 million at December 31, 2021 and December 31, 2020, respectively, plus any coupon shortfalls on the underlying tranche. As of December 31, 2021 and 2020, the credit derivative tranches referencing the basket of bonds had a range of ratings between AAA and AA, and AAA and A, respectively.

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The following table summarizes certain characteristics of the Company's interest rate swaps at December 31, 2021 and 2020:

December 31, 2021				
Maturity	Current Notional ⁽¹⁾⁽²⁾	Weighted Average Pay Rate	Weighted Average Receive Rate	Weighted Average Years to Maturity ⁽³⁾
(dollars in thousands)				
0 - 3 years	\$ 32,709,300	0.25%	0.06%	1.10
3 - 6 years	2,780,000	0.21%	0.07%	3.46
6 - 10 years	9,118,000	1.43%	0.13%	9.05
Greater than 10 years	1,300,000	4.04%	0.11%	18.70
Total / Weighted average	\$ 45,907,300	0.59%	0.08%	3.32

December 31, 2020				
Maturity	Current Notional ⁽¹⁾⁽²⁾	Weighted Average Pay Rate	Weighted Average Receive Rate	Weighted Average Years to Maturity ⁽³⁾
(dollars in thousands)				
0 - 3 years	\$ 23,680,150	0.27%	0.11%	1.96
3 - 6 years	3,600,000	0.18%	0.09%	4.21
6 - 10 years	5,565,500	1.40%	0.62%	7.76
Greater than 10 years	1,484,000	3.06%	0.36%	20.52
Total / Weighted average	\$ 34,329,650	0.92%	0.37%	3.94

⁽¹⁾ As of December 31, 2021, 18%, 53% and 29% of the Company's interest rate swaps were linked to LIBOR, the Federal funds rate and the Secured Overnight Financing Rate, respectively. As of December 31, 2020, 17%, 72% and 11% of the Company's interest rate swaps were linked to LIBOR the Federal funds rate and the Secured Overnight Financing Rate, respectively.

⁽²⁾ There were no forward starting swaps at December 31, 2021 and December 31, 2020.

⁽³⁾ At December 31, 2021 and December 31, 2020, the weighted average years to maturity of payer interest rate swaps is offset by the weighted average years to maturity of receiver interest rate swaps. As such, the net weighted average years to maturity for each maturity bucket may fall outside of the range listed.

The following table summarizes certain characteristics of the Company's swaptions at December 31, 2021 and 2020.

December 31, 2021					
	Current Underlying Notional	Weighted Average Underlying Fixed Rate	Weighted Average Underlying Floating Rate	Weighted Average Underlying Years to Maturity	Weighted Average Months to Expiration
(dollars in thousands)					
Long pay	\$4,050,000	2.00%	3M LIBOR	9.65	19.50
Long receive	\$2,000,000	1.47%	3M LIBOR	10.95	11.38

December 31, 2020					
	Current Underlying Notional	Weighted Average Underlying Fixed Rate	Weighted Average Underlying Floating Rate	Weighted Average Underlying Years to Maturity	Weighted Average Months to Expiration
(dollars in thousands)					
Long pay	\$8,050,000	1.27%	3M LIBOR	10.40	5.42
Long receive	\$250,000	1.66%	3M LIBOR	10.02	0.13

The following table summarizes certain characteristics of the Company's TBA derivatives at December 31, 2021 and 2020:

December 31, 2021				
Purchase and sale contracts for derivative TBAs	Notional	Implied Cost Basis	Implied Market Value	Net Carrying Value
(dollars in thousands)				
Purchase contracts	\$ 20,133,000	\$ 20,289,856	\$ 20,338,633	\$ 48,777

December 31, 2020				
Purchase and sale contracts for derivative TBAs	Notional	Implied Cost Basis	Implied Market Value	Net Carrying Value
(dollars in thousands)				
Purchase contracts	\$ 19,635,000	\$ 20,277,088	\$ 20,373,197	\$ 96,109

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The following table summarizes certain characteristics of the Company's futures derivatives at December 31, 2021 and 2020:

December 31, 2021			
	Notional - Long Positions	Notional - Short Positions	Weighted Average Years to Maturity
(dollars in thousands)			
U.S. Treasury futures - 2 year	\$ —	\$ (7,509,200)	1.96
U.S. Treasury futures - 5 year	—	(5,644,900)	4.38
U.S. Treasury futures - 10 year and greater	—	(9,381,000)	6.84
Total	\$ —	\$ (22,535,100)	4.60

December 31, 2020			
	Notional - Long Positions	Notional - Short Positions	Weighted Average Years to Maturity
(dollars in thousands)			
U.S. Treasury futures - 5 year	\$ —	\$ (1,240,000)	4.40
U.S. Treasury futures - 10 year and greater	—	(9,183,800)	6.90
Total	\$ —	\$ (10,423,800)	6.60

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 be offset on our Consolidated Statements of Financial Condition at December 31, 2021 and 2020, respectively.

December 31, 2021				
	Gross Amounts	Amounts Eligible for Offset		Net Amounts
		Financial Instruments	Cash Collateral	
(dollars in thousands)				
Assets				
Interest rate swaptions, at fair value	\$ 105,710	\$ —	\$ —	\$ 105,710
TBA derivatives, at fair value	52,693	(3,876)	—	48,817
Futures contracts, at fair value	9,028	(9,028)	—	—
Purchase commitments	1,779	—	—	1,779
Credit derivatives	1,160	(516)	—	644
Liabilities				
Interest rate swaps, at fair value	\$ 747,036	\$ —	\$ (77,607)	\$ 669,429
TBA derivatives, at fair value	3,916	(3,876)	(40)	—
Futures contracts, at fair value	129,134	(9,028)	(120,106)	—
Purchase commitments	870	—	—	870
Credit derivatives	581	(516)	(65)	—

December 31, 2020				
	Gross Amounts	Amounts Eligible for Offset		Net Amounts
		Financial Instruments	Cash Collateral	
(dollars in thousands)				
Assets				
Interest rate swaptions, at fair value	\$ 74,470	\$ —	\$ —	\$ 74,470
TBA derivatives, at fair value	96,109	—	—	96,109
Futures contracts, at fair value	506	(506)	—	—
Purchase commitments	49	—	—	49
Liabilities				
Interest rate swaps, at fair value	\$ 1,006,492	\$ —	\$ (108,757)	\$ 897,735
Futures contracts, at fair value	19,413	(506)	(18,907)	—
Credit derivatives	7,440	—	(7,440)	—

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

Location on Consolidated Statements of Comprehensive Income (Loss)				
	Net Interest Component of Interest Rate Swaps	Realized Gains (Losses) on Termination of Interest Rate Swaps	Unrealized Gains (Losses) on Interest Rate Swaps	
For the years ended	(dollars in thousands)			
December 31, 2021	\$ (276,142)	\$ (1,236,349)	\$ 2,198,486	
December 31, 2020	\$ (207,877)	\$ (1,917,628)	\$ (904,532)	
December 31, 2019	\$ 351,375	\$ (1,442,964)	\$ (1,210,276)	

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

Year Ended December 31, 2021				
Derivative Instruments	Realized Gain (Loss)	Unrealized Gain (Loss)	Amount of Gain/(Loss) Recognized in Net Gains (Losses) on Other Derivatives and Financial Instruments	
(dollars in thousands)				
Net TBA derivatives	\$ (354,410)	\$ (47,332)	\$ (401,742)	
Net interest rate swaptions	(78,431)	2,387	(76,044)	
Futures	683,534	(101,199)	582,335	
Purchase commitments	—	860	860	
Credit derivatives	8,234	6,931	15,165	
Total			\$ 120,574	

Year Ended December 31, 2020				
Derivative Instruments	Realized Gain (Loss)	Unrealized Gain (Loss)	Amount of Gain/(Loss) Recognized in Net Gains (Losses) on Other Derivatives and Financial Instruments	
(dollars in thousands)				
Net TBA derivatives	\$ 893,120	\$ 92,244	\$ 985,364	
Net interest rate swaptions	11,730	46,301	58,031	
Futures	(268,084)	(12,015)	(280,099)	
Purchase commitments	—	(1,093)	(1,093)	
Credit derivatives	6,068	(11,966)	(5,898)	
Total			\$ 756,305	

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

Upon the occurrence of any one of items (i) through (iv), or another default under the agreement, the counterparty to the applicable agreement has a right to terminate the agreement in accordance with its provisions. The aggregate fair value of all derivative instruments with the aforementioned features that are in a net liability position at December 31, 2021 was approximately \$0.7 billion, which represents the maximum amount the Company would be required to pay upon termination. This amount is fully collateralized.

11. FAIR VALUE MEASUREMENTS

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

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“Sale of Commercial Real Estate Business” Note for fair value measurements related to the assets and liabilities of the disposal group held for sale as of December 31, 2021.

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

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

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

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

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

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

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

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

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

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

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

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

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

December 31, 2021				
	Level 1	Level 2	Level 3	Total
Assets				
(dollars in thousands)				
Securities				
Agency mortgage-backed securities	\$ —	\$ 60,525,605	\$ —	\$ 60,525,605
Credit risk transfer securities	—	936,228	—	936,228
Non-Agency mortgage-backed securities	—	1,663,336	—	1,663,336
Commercial mortgage-backed securities	—	530,505	—	530,505
Loans				
Residential mortgage loans	—	2,272,072	—	2,272,072
Residential mortgage loan warehouse facility	—	980	—	980
Mortgage servicing rights	—	—	544,562	544,562
Interests in MSR	—	—	69,316	69,316
Assets transferred or pledged to securitization vehicles	—	6,086,308	—	6,086,308
Derivative assets				
Other derivatives	9,028	161,342	—	170,370
Total assets	<u>\$ 9,028</u>	<u>\$ 72,176,376</u>	<u>\$ 613,878</u>	<u>\$ 72,799,282</u>
Liabilities				
Debt issued by securitization vehicles	—	5,155,633	—	5,155,633
Participations issued	—	1,049,066	—	1,049,066
Derivative liabilities				
Interest rate swaps	—	747,036	—	747,036
Other derivatives	129,134	5,367	—	134,501
Total liabilities	<u>\$ 129,134</u>	<u>\$ 6,957,102</u>	<u>\$ —</u>	<u>\$ 7,086,236</u>

December 31, 2020				
	Level 1	Level 2	Level 3	Total
Assets				
(dollars in thousands)				
Securities				
Agency mortgage-backed securities	\$ —	\$ 74,067,059	\$ —	\$ 74,067,059
Credit risk transfer securities	—	532,403	—	532,403
Non-Agency mortgage-backed securities	—	972,192	—	972,192
Commercial mortgage-backed securities	—	80,742	—	80,742
Loans				
Residential mortgage loans	—	345,810	—	345,810
Mortgage servicing rights	—	—	100,895	100,895
Assets transferred or pledged to securitization vehicles	—	6,035,671	—	6,035,671
Derivative assets				
Other derivatives	506	170,628	—	171,134
Total assets	<u>\$ 506</u>	<u>\$ 82,204,505</u>	<u>\$ 100,895</u>	<u>\$ 82,305,906</u>
Liabilities				
Debt issued by securitization vehicles	\$ —	\$ 5,652,982	\$ —	\$ 5,652,982
Participations issued	—	39,198	—	39,198
Derivative liabilities				
Interest rate swaps	—	1,006,492	—	1,006,492
Other derivatives	19,413	7,440	—	26,853
Total liabilities	<u>\$ 19,413</u>	<u>\$ 6,706,112</u>	<u>\$ —</u>	<u>\$ 6,725,525</u>

Qualitative and Quantitative Information about Level 3 Fair Value Measurements

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

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

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

December 31, 2021				
	Unobservable Input ⁽¹⁾ / Range (Weighted Average) ⁽²⁾			
	Discount rate	Prepayment rate	Delinquency rate	Cost to service
MSR held directly	3.3% - 11.1% (7.0%)	7.3% - 15.9% (9.4%)	0.2% - 2.5% (1.2%)	\$90 - \$103 (\$96)
Interests in MSR	8.4% - 8.4% (8.4%)	5.0% - 14.4% (9.1%)	0.0% - 0.2% (0.1%)	\$78 - \$84 (\$81)

December 31, 2020				
	Unobservable Input ⁽¹⁾ / Range (Weighted Average) ⁽²⁾			
	Discount rate	Prepayment rate	Delinquency rate	Cost to service
MSR consolidated with VIE	9.0% - 12.0% (9.4%)	19.3% - 55.5% (42.0%)	0.0% - 6.0% (2.5%)	\$83 - \$108 (\$98)

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

⁽²⁾ Weighted average discount rate computed based on the fair value of MSR, weighted average prepayment rate, delinquency rate and cost to service based on unpaid principal balances of loans underlying the MSR.

The following table summarizes the estimated fair values for financial assets and liabilities that are not carried at fair value at December 31, 2021 and 2020.

	December 31, 2021		December 31, 2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets	(dollars in thousands)			
Loans				
Commercial real estate debt and preferred equity, held for investment ⁽¹⁾	\$—	\$—	\$1,372,430	\$1,442,071
Corporate debt, held for investment	1,968,991	1,986,379	2,239,930	2,226,045
Assets transferred or pledged to securitization vehicles	—	—	874,349	928,732
Financial liabilities				
Repurchase agreements	\$54,769,643	\$54,769,643	\$64,825,239	\$64,825,239
Other secured financing	903,255	903,255	917,876	917,876
Mortgage payable	—	—	426,256	474,779

⁽¹⁾ Includes assets of consolidated VIEs.

Commercial real estate debt and preferred equity, held for investment, corporate debt held, for investment, corporate debt, held for sale and mortgages payable are valued using Level 3 inputs. The carrying values of repurchase agreements and short term other secured financing approximate fair value and are considered Level 2 fair value measurements. Long term other secured financing is valued using Level 2 inputs.

12. GOODWILL AND INTANGIBLE ASSETS

Goodwill

The Company's acquisitions are accounted for using the acquisition method if the acquisition is deemed to be a business. Under the acquisition method, net assets and results of operations of acquired companies are included in the consolidated financial statements from the date of acquisition. The purchase prices are allocated to the assets acquired, including identifiable intangible assets, and the liabilities assumed based on their estimated fair values at the date of acquisition. The excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill. Conversely, any excess of the fair value of the net assets acquired over the purchase price is recognized as a bargain purchase gain.

The Company tests goodwill for impairment on an annual basis or more frequently when events or circumstances may make it more likely than not that an impairment has occurred. If a qualitative analysis indicates that there may be an impairment, a quantitative analysis is performed. The quantitative impairment test for goodwill compares the fair value of a reporting unit with its carrying value, including goodwill. If the carrying value of a reporting unit exceeds its fair value, an impairment loss is recognized in amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. At December 31, 2021 and 2020, goodwill totaled \$0 and \$71.8 million, respectively. The change reflects the goodwill impairment in connection with the sale of the CRE business. Refer to the "Sale of Commercial Real Estate Business" Note for additional information.

Intangible assets, net

Finite life intangible assets are amortized over their expected useful lives. As part of the Internalization, which closed on June 30, 2020, the Company recognized an intangible asset for the acquired assembled workforce of approximately \$41.2 million based on the replacement cost of the employee base acquired by the Company. As part of the sale of the CRE business, certain intangible assets connected with those real estate assets were transferred into the disposal group held for sale. During the year ended December 31, 2021, the Company recognized an impairment of \$4.3 million in Other income (loss) and \$5.2 million in Business divestiture-related gains (losses) in the Consolidated Statements of Comprehensive Income (Loss) for changes to the assembled workforce.

The following table presents the activity of finite lived intangible assets for the year ended December 31, 2021.

Intangible Assets, net	
(dollars in thousands)	
Balance at December 31, 2020	\$ 55,526
Impairment	(9,549)
Intangible assets transferred to disposal group held for sale	(14,528)
Less: amortization expense	(7,208)
Balance at December 31, 2021	\$ 24,241

13. SECURED FINANCING

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

The Company enters into reverse repurchase agreements to earn a yield on excess cash balances. To mitigate credit exposure, the Company monitors the market value of these securities and delivers or obtains additional collateral based on changes in market value of these securities. Generally, the Company receives or posts collateral with a fair value approximately equal to or greater than the value of the secured financing.

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

The Company had outstanding \$54.8 billion and \$64.8 billion of repurchase agreements with weighted average remaining maturities of 52 days and 64 days at December 31, 2021 and 2020, respectively. The Company has select arrangements with

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counterparties to enter into repurchase agreements for \$1.9 billion with remaining capacity of \$1.4 billion at December 31, 2021.

At December 31, 2021 and 2020, the repurchase agreements had the following remaining maturities, collateral types and weighted average rates:

December 31, 2021										
	Agency Mortgage-Backed Securities		Non-Agency Mortgage-Backed Securities		Residential Mortgage Loans		Commercial Mortgage-Backed Securities ⁽¹⁾		Total Repurchase Agreements	Weighted Average Rate
	CRTs		CRTs							
(dollars in thousands)										
1 day	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	—%
2 to 29 days	26,435,408	133,525	246,707	—	197,834	27,013,474	0.14%			
30 to 59 days	9,743,872	38,854	270,377	159,350	—	10,212,453	0.19%			
60 to 89 days	6,021,850	4,071	351,426	—	—	6,377,347	0.17%			
90 to 119 days	4,812,345	—	12,573	—	—	4,824,918	0.15%			
Over 119 days ⁽²⁾	5,711,448	—	96,283	345,651	188,069	6,341,451	0.27%			
Total	\$ 52,724,923	\$ 176,450	\$ 977,366	\$ 505,001	\$ 385,903	\$ 54,769,643	0.17%			

December 31, 2020										
	Agency Mortgage-Backed Securities		Non-Agency Mortgage-Backed Securities		Residential Mortgage Loans		Commercial Mortgage-Backed Securities		Total Repurchase Agreements	Weighted Average Rate
	CRTs		CRTs							
(dollars in thousands)										
1 day	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	—%
2 to 29 days	30,151,875	129,993	354,904	76,799	—	128,267	30,841,838	0.29%		
30 to 59 days	10,247,972	16,073	161,274	—	—	142,336	10,567,655	0.42%		
60 to 89 days	8,181,410	99,620	259,401	—	—	28,406	8,568,837	0.30%		
90 to 119 days	2,154,733	—	—	—	—	—	2,154,733	0.23%		
Over 119 days ⁽²⁾	12,008,920	—	274,860	107,924	271,801	28,671	12,692,176	0.36%		
Total	\$ 62,744,910	\$ 245,686	\$ 1,050,439	\$ 184,723	\$ 271,801	\$ 327,680	\$ 64,825,239	0.32%		

⁽¹⁾ Includes commercial mortgage-backed securities held for sale.

⁽²⁾ No repurchase agreements had a remaining maturity over 1 year at December 31, 2021. Less than 1% of the total repurchase agreements had a remaining maturity over 1 year at December 31, 2020.

The following table summarizes the gross amounts of reverse repurchase agreements and repurchase agreements, amounts offset in accordance with netting arrangements and net amounts of repurchase agreements and reverse repurchase agreements as presented in the Consolidated Statements of Financial Condition at December 31, 2021 and 2020. Refer to the “Derivative Instruments” Note for information related to the effect of netting arrangements on the Company’s derivative instruments.

	December 31, 2021		December 31, 2020	
	Reverse Repurchase Agreements	Repurchase Agreements	Reverse Repurchase Agreements	Repurchase Agreements
(dollars in thousands)				
Gross amounts	\$ —	\$ 54,769,643	\$ 250,000	\$ 65,075,239
Amounts offset	—	—	(250,000)	(250,000)
Netted amounts	\$ —	\$ 54,769,643	\$ —	\$ 64,825,239

The fair value of mortgage-backed securities received as collateral in connection with reverse repurchase agreements was approximately \$250.0 million, which the Company fully repurchased, at December 31, 2020.

Other Secured Financing - Refer to the “Variable Interest Entities” Note for additional information on the Company’s other secured financing arrangements.

Investments pledged as collateral under secured financing arrangements and interest rate swaps, excluding residential and senior securitized commercial mortgage loans of consolidated VIEs, had an estimated fair value and accrued interest of \$59.2 billion and \$160.8 million, respectively, at December 31, 2021 and \$70.6 billion and \$196.9 million, respectively, at December 31, 2020.

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14. CAPITAL STOCK

(A) Common Stock

The following table provides a summary of the Company's common shares authorized, and issued and outstanding at December 31, 2021 and 2020.

	Shares authorized		Shares issued and outstanding		Par Value
	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020	
Common stock	2,936,500,000	2,914,850,000	1,459,736,258	1,398,240,618	\$0.01

In June 2019, the Company announced that its board of directors ("Board") had authorized the repurchase of up to \$1.5 billion of its outstanding shares of common stock, which expired on December 31, 2020 (the "2019 - 2020 Share Repurchase Program"). In December 2020, the Company announced that its Board authorized the repurchase of up to \$1.5 billion of its outstanding common shares through December 31, 2021 (the "2021 Share Repurchase Program"). The 2021 Share Repurchase Program replaced the Prior Share Repurchase Program. In January 2022, we announced that our Board authorized the repurchase of up to \$1.5 billion of our outstanding shares of common stock through December 31, 2024 (the "Current Share Repurchase Program"). The Current Share Repurchase Program replaced the 2019 - 2020 Share Repurchase Program, which had replaced the Prior Share Repurchase Program.

During the year ended December 31, 2021, no shares were repurchased under the 2021 Share Repurchase Program. During the year ended December 31, 2020, the Company repurchased 32.4 million shares of its common stock for an aggregate amount of \$208.9 million, excluding commission costs. All common shares purchased were part of a publicly announced plan in open-market transactions.

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

	December 31, 2021	December 31, 2020
	(dollars in thousands)	
Shares issued through direct purchase and dividend reinvestment program	—	166,000
Amount raised from direct purchase and dividend reinvestment program	\$ —	\$ 1,175

In January 2018, the Company entered into separate Distribution Agency Agreements (as amended and restated on August 6, 2021 and August 6, 2020, collectively, the "Sales Agreements") with each of Wells Fargo Securities, LLC, BofA Securities, Inc. (formerly known as Merrill Lynch, Pierce, Fenner & Smith, Incorporated), Barclays Capital Inc., Citigroup Global Markets Inc., Credit Suisse Securities (USA) LLC, Goldman Sachs & Co. LLC, J.P. Morgan Securities LLC, Keefe, Bruyette & Woods, Inc., RBC Capital Markets, LLC and UBS Securities LLC (the "Sales Agents"). The Company may offer and sell shares of its common stock, having an aggregate offering price of up to \$1.5 billion, from time to time through any of the Sales Agents.

During the year ended December 31, 2021, the Company issued 60.9 million shares of common stock for proceeds of \$552.4 million, net of commissions and fees, under the at-the-market sales program. No shares were issued under the at-the-market sales program during the year ended December 31, 2020.

(B) Preferred Stock

The following is a summary of the Company's cumulative redeemable preferred stock outstanding at December 31, 2021 and 2020. In the event of a liquidation or dissolution of the Company, the Company's then outstanding preferred stock takes precedence over the Company's common stock with respect to payment of dividends and the distribution of assets.

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	Shares Authorized		Shares Issued And Outstanding		Carrying Value		Contractual Rate	Earliest Redemption Date ⁽¹⁾	Which Dividend Rate Becomes Floating	Floating Annual Rate
	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020				
Fixed-rate	(dollars in thousands)									
Series D	—	18,400,000	—	—	—	—	7.50%	9/13/2017	NA	NA
Fixed-to-floating rate										
Series F	28,800,000	28,800,000	28,800,000	28,800,000	696,910	696,910	6.95%	9/30/2022	9/30/2022	3M LIBOR + 4.993%
Series G	17,000,000	19,550,000	17,000,000	17,000,000	411,335	411,335	6.50%	3/31/2023	3/31/2023	3M LIBOR + 4.172%
Series I	17,700,000	18,400,000	17,700,000	17,700,000	428,324	428,324	6.75%	6/30/2024	6/30/2024	3M LIBOR + 4.989%
Total	63,500,000	85,150,000	63,500,000	63,500,000	\$ 1,536,569	\$ 1,536,569				

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

Each series of preferred stock has a par value of \$0.01 per share and a liquidation and redemption price of \$25.00, plus accrued and unpaid dividends through their redemption date. Through December 31, 2021, the Company had declared and paid all required quarterly dividends on the Company's preferred stock.

During the year ended December 31, 2020, the Company redeemed all 18.4 million of its issued and outstanding shares of 7.50% Series D Cumulative Redeemable Preferred Stock ("Series D Preferred Stock") for \$460.0 million. The cash redemption amount for each share of Series D Preferred Stock was \$25.00.

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

(C) Distributions to Stockholders

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

	For the Years Ended	
	December 31, 2021	December 31, 2020
	(dollars in thousands, except per share data)	
Dividends and dividend equivalents declared on common stock and share-based awards	\$ 1,268,558	\$ 1,285,124
Distributions declared per common share ⁽¹⁾	\$ 0.88	\$ 0.91
Distributions paid to common stockholders after period end	\$ 321,142	\$ 307,613
Distributions paid per common share after period end	\$ 0.22	\$ 0.22
Date of distributions paid to common stockholders after period end	January 31, 2022	January 29, 2021
Dividends declared to series D preferred stockholders	\$ —	\$ 34,500
Dividends declared per share of series D preferred stock ⁽²⁾	\$ —	\$ 1.875
Dividends declared to series F preferred stockholders	\$ 50,040	\$ 50,040
Dividends declared per share of series F preferred stock ⁽²⁾	\$ 1.738	\$ 1.738
Dividends declared to series G preferred stockholders	\$ 27,624	\$ 27,625
Dividends declared per share of series G preferred stock ⁽²⁾	\$ 1.625	\$ 1.625
Dividends declared to series I preferred stockholders	\$ 29,868	\$ 29,871
Dividends declared per share of series I preferred stock ⁽²⁾	\$ 1.688	\$ 1.688

⁽¹⁾ For the year ended December 31, 2021, 100% of common stock dividend distributions of \$0.87 per share was taxable as a return of capital. For the year ended December 31, 2020, 74% and 26% of common stock dividend distributions of \$0.95 per share were taxable as ordinary income and capital gains, respectively.

⁽²⁾ For the year ended December 31, 2021, 100% of the preferred stock dividend distributions per share was taxable as a return of capital. For the year ended December 31, 2020, 74% and 26% of the preferred stock dividend distributions per share were taxable as ordinary income and capital gains, respectively.

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15. LONG-TERM STOCK INCENTIVE PLAN

Employees, Directors and other service providers of the Company are eligible to participate in the Company's 2020 Equity Incentive Plan (the "Plan"), which provides for equity-based compensation in the form of stock options, share appreciation rights, dividend equivalent rights, restricted shares, restricted stock units ("RSUs"), and other share-based awards. The Company has the ability to award up to an aggregate of 125,000,000 shares under the terms of the Plan, subject to adjustment for any awards that were outstanding under the Company's 2010 Equity Incentive Plan (the "Prior Plan", collectively the "Plans") on the effective date of the Plan and subsequently expire, terminate, or are surrendered or forfeited. No new awards are permitted to be made under the Prior Plan, although existing awards remain effective.

Restricted Stock Units

The Company grants RSUs (including RSUs subject to performance conditions ("PSUs")) to employees, which are generally valued based on the closing price of the underlying shares on the date of grant. For RSUs that vest, the underlying shares of common stock are delivered (net of required withholding tax) as outlined in the applicable award agreements. PSUs are subject to the Company's achievement of specified performance criteria and the number of awards that vest can range from zero to 150% of the grant amount. Award agreements generally provide that vesting is accelerated in certain circumstances, such as death and disability. Delivery of the underlying shares of common stock, which generally occurs over a three-year period, is conditioned on the grantees satisfying certain vesting and other requirements outlined in the award agreements.

The following table sets forth activity related to the Company's RSUs and PSUs awarded under the Plans:

	For the Year Ended December 31, 2021	
	Number of Shares	Weighted Average Grant Date Fair Value
	(dollars in thousands)	
Beginning balance	1,670,738	\$ 7.05
Granted ⁽¹⁾	1,824,434	\$ 6.92
Vested	(739,815)	\$ 7.35
Forfeited ⁽¹⁾	(94,353)	\$ 8.22
Ending balance ⁽²⁾	<u>2,661,004</u>	\$ 6.84

⁽¹⁾ Includes dividend equivalent rights.

⁽²⁾ The ending balance includes 680,351 PSUs and related dividend equivalent rights subject to performance conditions and future service requirements, and represents the target amount of such PSUs that may be earned.

The Company recognized equity-based compensation expense of \$9.8 million for the year ended December 31, 2021. As of December 31, 2021, there was \$12.1 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements. This cost is expected to be recognized over a weighted average period of 1.73 years.

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16. INTEREST INCOME AND INTEREST EXPENSE

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

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

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

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

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

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

The following presents the components of the Company’s interest income and interest expense for the years ended December 31, 2021, 2020 and 2019.

	For the Years Ended December 31,		
	2021	2020	2019
Interest income	(dollars in thousands)		
Agency Securities ⁽¹⁾	\$ 1,484,354	\$ 1,661,566	\$ 3,105,035
Residential credit securities	78,681	57,394	90,511
Residential mortgage loans ⁽¹⁾	182,359	170,259	150,066
Commercial investment portfolio ⁽¹⁾⁽²⁾	237,597	338,763	378,395
Reverse repurchase agreements	45	1,643	63,290
Total interest income	\$ 1,983,036	\$ 2,229,625	\$ 3,787,297
Interest expense			
Repurchase agreements	116,974	705,218	2,513,282
Debt issued by securitization vehicles	93,006	142,602	141,981
Participations issued	12,071	78	—
Other	27,192	51,214	129,612
Total interest expense	249,243	899,112	2,784,875
Net interest income	\$ 1,733,793	\$ 1,330,513	\$ 1,002,422

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

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

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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, 2021, 2020 and 2019.

	For the Years Ended		
	December 31, 2021	December 31, 2020	December 31, 2019
	(dollars in thousands, except per share data)		
Net income (loss)	\$ 2,396,280	\$ (889,772)	\$ (2,163,091)
Net income (loss) attributable to noncontrolling interests	6,384	1,391	(226)
Net income (loss) attributable to Annaly	2,389,896	(891,163)	(2,162,865)
Dividends on preferred stock	107,532	142,036	136,576
Net income (loss) available (related) to common stockholders	\$ 2,282,364	\$ (1,033,199)	\$ (2,299,441)
Weighted average shares of common stock outstanding-basic	1,427,426,079	1,414,659,439	1,434,912,682
Add: Effect of stock awards, if dilutive	1,142,924	—	—
Weighted average shares of common stock outstanding-diluted	1,428,569,003	1,414,659,439	1,434,912,682
Net income (loss) per share available (related) to common share			
Basic	\$ 1.60	\$ (0.73)	\$ (1.60)
Diluted	\$ 1.60	\$ (0.73)	\$ (1.60)

The computations of diluted net income (loss) per share available (related) to common share for the year ended December 31, 2020 excludes 1.0 million of potentially dilutive restricted stock units and performance stock units because their effect would have been anti-dilutive.

18. INCOME TAXES

For the year ended December 31, 2021 the Company was qualified to be taxed as a REIT under Code Sections 856 through 860. As a REIT, the Company will not incur federal income tax to the extent that it distributes its taxable income to its stockholders. To maintain qualification as a REIT, the Company must distribute at least 90% of its annual REIT taxable income to its stockholders and meet certain other requirements that relate to, among other things, assets it may hold, income it may generate and its stockholder composition. It is generally the Company's policy to distribute 100% of its REIT taxable income. To the extent there is any undistributed REIT taxable income at the end of a year, the Company distributes such shortfall within the next year as permitted by the Code.

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

The provisions of ASC 740, Income Taxes ("ASC 740"), clarify the accounting for uncertainty in income taxes recognized in financial statements and prescribe a recognition threshold and measurement attribute for uncertain tax positions taken or expected to be taken on a tax return. ASC 740 also requires that interest and penalties related to unrecognized tax benefits be recognized in the financial statements. The Company does not have any unrecognized tax benefits that would affect its financial position. Thus, no accruals for penalties and interest were deemed necessary at December 31, 2021 and 2020.

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

During the years ended December 31, 2021, 2020 and 2019 the Company recorded \$4.7 million, (\$28.4) million and (\$10.8) million, respectively, of income tax expense (benefit) attributable to its TRSs. The Company's federal, state and local tax returns from 2018 and forward remain open for examination.

19. RISK MANAGEMENT

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

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

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

The payment of principal and interest on the Freddie Mac and Fannie Mae Agency mortgage-backed securities, which exclude CRT securities issued by Freddie Mac and Fannie Mae, is guaranteed by those respective agencies and the payment of principal and interest on Ginnie Mae Agency mortgage-backed securities is backed by the full faith and credit of the U.S. government.

The Company faces credit risk on the portions of its portfolio which are not guaranteed by the respective Agency or by the full faith and credit of the U.S. government. The Company is exposed to credit risk on commercial mortgage-backed securities, residential mortgage loans, CRT securities, other non-Agency mortgage-backed securities and corporate debt. MSR values may also be adversely impacted by rising borrower delinquencies which would reduce servicing income and increase overall costs to service the underlying mortgage loans. The Company is exposed to risk of loss if an issuer, borrower 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, pre-purchase due diligence, maintaining qualifying collateral and continually assessing the creditworthiness of issuers, borrowers and counterparties, credit rating monitoring and active servicer oversight.

The Company depends on third-party service providers to perform various business processes related to its operations, including mortgage loan servicers and sub-servicers. The Company's vendor management policy establishes procedures for engaging, onboarding and monitoring the performance of third-party vendors. These procedures include assessing a vendor's financial health as well as oversight of its compliance with applicable laws and regulations, cybersecurity and business continuity programs and security of personally identifiable information.

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20. RELATED PARTY TRANSACTIONS*Closing of the Internalization and Termination of Management Agreement*

On February 12, 2020, the Company entered into an internalization agreement (the “Internalization Agreement”) with the Former Manager and certain affiliates of the Former Manager. Pursuant to the Internalization Agreement, the Company agreed to acquire all of the outstanding equity interests of the Former Manager and the Former Manager’s direct and indirect parent companies from their respective owners (the “Internalization”) for nominal cash consideration (\$1.00). In connection with the closing of the Internalization, on June 30, 2020, the Company acquired all of the assets and liabilities of the Former Manager (the net effect of which was immaterial in amount), and the Company transitioned from an externally-managed REIT to an internally-managed REIT. At the closing, all employees of the Former Manager became employees of the Company. The parties also terminated the Amended and Restated Management Agreement by and between the Company and the Former Manager (the “Management Agreement”) and therefore the Company no longer pays a management fee to, or reimburses expenses of, the Former Manager. Pursuant to the Internalization Agreement, the Former Manager waived any Acceleration Fee (as defined in the Management Agreement).

Prior to the closing of the Internalization, the Former Manager, under the Management Agreement and subject to the supervision and direction of the Board, was responsible for (i) the selection, purchase and sale of assets for the Company’s investment portfolio; (ii) recommending alternative forms of capital raising; (iii) supervising the Company’s financing and hedging activities; and (iv) day to day management functions. The Former Manager also performed such other supervisory and management services and activities relating to the Company’s assets and operations as appropriate. In exchange for the management services, the Company paid the Former Manager a monthly management fee, and the Former Manager was responsible for providing personnel to manage the Company. Prior to the closing of the Internalization, the Company had paid the Former Manager a monthly management fee for its management services in an amount equal to 1/12th of the sum of (i) 1.05% of Stockholders’ Equity (as defined in the Management Agreement) up to \$17.28 billion, and (ii) 0.75% of Stockholders’ Equity (as defined in the Management Agreement) in excess of \$17.28 billion. The Company did not pay the Former Manager any incentive fees.

For the six months ended June 30, 2020, the compensation and management fee computed in accordance with the Management Agreement was \$77.9 million and reimbursement payments to the former manager was \$14.2 million. For the year ended December 31, 2019, the compensation and management fee was \$170.6 million and reimbursement payments to the former manager was \$21.4 million.

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The Company's operating leases are primarily comprised of a corporate office lease with a remaining lease term of approximately four years. The corporate office lease includes an option to extend for up to five years, however the extension term was not included in the operating lease liability calculation. Leases with an initial term of 12 months or less are not recorded on the balance sheet. The Company recognizes lease expense for these leases on a straight-line basis over the lease term. The lease cost for the year ended December 31, 2021 was \$3.3 million.

Supplemental information related to leases as of and for the year ended December 31, 2021 was as follows:

Operating Leases	Classification	December 31, 2021	
(dollars in thousands)			
Assets			
Operating lease right-of-use assets	Other assets	\$	10,542
Liabilities			
Operating lease liabilities ⁽¹⁾	Other liabilities	\$	13,713
Lease term and discount rate			
Weighted average remaining lease term		3.7 years	
Weighted average discount rate ⁽¹⁾		2.9%	
Cash paid for amounts included in the measurement of lease liabilities			
Operating cash flows from operating leases		\$	3,918

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

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

Years ended December 31,	Maturity of Lease Liabilities	
	(dollars in thousands)	
2022	\$	3,862
2023		3,862
2024		3,862
2025		2,895
Total lease payments	\$	14,481
Less imputed interest		768
Present value of lease liabilities	\$	13,713

Contingencies

From time to time, the Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material effect on the Company's consolidated financial statements. There were no material contingencies at December 31, 2021 and 2020.

22. ARCOLA REGULATORY REQUIREMENTS

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

Arcola is a member of various clearing organizations with which it maintains cash required to conduct its day-to-day clearance activities. Arcola enters into reverse repurchase agreements and repurchase agreements as part of its matched book trading activity. Reverse repurchase agreements are recorded on settlement date at the contractual amount and are collateralized by mortgage-backed or other securities. Arcola generates income from the spread between what is earned on the reverse repurchase agreements and what is paid on the matched repurchase agreements. Arcola's policy is to obtain possession of collateral with a market value in excess of the principal amount loaned under reverse repurchase agreements. To ensure that the market value of the underlying collateral remains sufficient, collateral is valued daily, and Arcola will require counterparties to deposit additional collateral, when necessary. All reverse repurchase activities are transacted under master repurchase agreements or other documentation that give Arcola the right, in the event of default, to liquidate collateral held and in some instances, to offset receivables and payables with the same counterparty.

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As a member of FINRA, Arcola is required to maintain a minimum net capital balance. At December 31, 2021, Arcola had a minimum net capital requirement of \$0.3 million. Arcola consistently operates with capital in excess of its regulatory capital requirements. Arcola’s regulatory net capital as defined by SEC Rule 15c3-1 at December 31, 2021 was \$512.3 million with excess net capital of \$512.0 million.

23. SUBSEQUENT EVENTS

In January 2022, the Company completed and closed the securitizations of residential mortgage loans, OBX 2022-NQM1 and OBX 2022-INV1, with face values of \$556.7 million and \$377.3 million, respectively and in February 2022, completed and closed OBX 2022-INV2, with a face value of \$466.7 million. The securitizations represented financing transactions which provided non-recourse financing to the Company collateralized by residential mortgage loans purchased by the Company.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

ANNALY CAPITAL MANAGEMENT, INC.

Date: February 17, 2022

By: /s/ David L. Finkelstein

David L. Finkelstein

Chief Executive Officer and President (Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature	Title	Date
<u>/s/ David L. Finkelstein</u> David L. Finkelstein	Chief Executive Officer, President and Director (Principal Executive Officer)	February 17, 2022
<u>/s/ Serena Wolfe</u> Serena Wolfe	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	February 17, 2022
<u>/s/ Francine J. Bovich</u> Francine J. Bovich	Director	February 17, 2022
<u>/s/ Wellington J. Denahan</u> Wellington J. Denahan	Director, Vice Chair of the Board	February 17, 2022
<u>/s/ Katherine Beirne Fallon</u> Katherine Beirne Fallon	Director	February 17, 2022
<u>/s/ Thomas Edward Hamilton</u> Thomas Edward Hamilton	Director	February 17, 2022
<u>/s/ Kathy Hopinkah Hannan</u> Kathy Hopinkah Hannan	Director	February 17, 2022
<u>/s/ Michael E. Haylon</u> Michael E. Haylon	Director, Chair of the Board	February 17, 2022
<u>/s/ Eric A. Reeves</u> Eric A. Reeves	Director	February 17, 2022
<u>/s/ John H. Schaefer</u> John H. Schaefer	Director	February 17, 2022
<u>/s/ Glenn A. Votek</u> Glenn A. Votek	Director	February 17, 2022
<u>/s/ Vicki Williams</u> Vicki Williams	Director	February 17, 2022

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Glossary of Terms

AMML:	Refers to Annaly Middle Market Lending Group
ARC:	Refers to Annaly Residential Credit Group
BBREMTG Index:	Represents the Bloomberg Mortgage REIT Index as of December 31, 2021, including Annaly
CRT:	Refers to Credit Risk Transfer Securities
Dedicated Capital:	Represents the capital allocation for each of the investment strategies calculated as the difference between each investment strategies' assets and related financing. This calculation includes TBA purchase contracts and excludes non-portfolio related activity and will vary from total stockholders' equity
Directors:	Represents the eleven members of the Board following the 2022 Annual Meeting (assuming all nominees are elected)
ESG:	Refers to Environmental, Social and Governance
Ginnie Mae:	Refers to the Government National Mortgage Association
GSE:	Refers to government sponsored enterprise
mREIT:	Refers to mortgage Real Estate Investment Trust
MSR:	Refers to Mortgage Servicing Right
Non-QM:	Refers to a Non-Qualified Mortgage
OBX Securities:	Refers to Onslow Bay Securities. Onslow Bay is a wholly owned subsidiary of Annaly Capital Management, Inc.
TBA:	Refers to a To-Be-Announced security
Unencumbered Assets:	Represents Annaly's excess liquidity and defined as assets that have not been pledged or securitized (generally including cash and cash equivalents, Agency MBS, CRT, Non-Agency MBS, residential mortgage loans, MSRs, reverse repurchase agreements, corporate debt, other unencumbered financial assets and capital stock)

Endnotes

Annaly | Progressive Approach, Proven Results

Source: Company filings and Bloomberg. Market data as of December 31, 2021. Financial data as of December 31, 2021.

1. Permanent capital represents Annaly's total stockholders' equity as of December 31, 2021.
2. Total portfolio represents Annaly's investments that are on-balance sheet as well as investments that are off-balance sheet in which Annaly has economic exposure. Assets include TBA purchase contracts (market value) of \$20.3bn, CMBX derivatives (market value) of \$0.4bn and \$0.8bn of retained securities that are eliminated in consolidation and are shown net of participations issued totaling \$1.0bn.
3. Represents total shareholder return for the period beginning October 7, 1997 through December 31, 2021.
4. Data shown since Annaly's initial public offering in October 1997 through December 31, 2021 and includes common and preferred dividends declared.
5. Represents the estimated number of homes financed by Annaly's holdings of Agency MBS, residential whole loans and securities, as well as multi-family commercial real estate loans, securities and equity investments. The number includes all homes related to securities and loans wholly-owned by Annaly and a pro-rata share of homes in securities or equity investments that are partially owned by Annaly.
6. Represents the cumulative amount of current and prior residential whole loans owned by Annaly.
7. Represents the cumulative commitment value of Annaly's commercial investments, including current and prior investments in our middle market and commercial real estate businesses.

Power of Annaly

Source: Company filings and Bloomberg. Market data as of December 31, 2021. Financial data as of December 31, 2021.

1. Representative of the BBREMTG Index. Excludes Annaly.
2. Permanent capital represents Annaly's total stockholders' equity as of December 31, 2021.

Proven Results

Source: Company filings and Bloomberg. Market data as of December 31, 2021. Financial data as of December 31, 2021.

1. Data shown since Annaly's initial public offering in October 1997 through December 31, 2021 and includes common and preferred dividends declared.

People First

Note: Board, executive officer and Operating Committee composition statistics as of April 2022. Employee composition statistics as of December 31, 2021.

Message from Our CEO

Source: Company filings. Financial data as of December 31, 2021.

1. The platform and the significant majority of the assets were transferred in 2021, with remaining assets transferred in the first quarter of 2022 following regulatory approvals.
2. Purchaser ranking data sourced from eMBS as of December 31, 2021.
3. MSR assets include limited partnership interests in two MSR funds, one of which is reported in Other Assets.

Message from Our CEO (cont'd)

4. Includes six deals that priced in 2022: a \$557mm residential whole loan securitization in January 2022, a \$377mm residential whole loan securitization in January 2022, a \$467mm residential whole loan securitization in February 2022, a \$439mm residential whole loan securitization in February 2022, a \$331mm residential whole loan securitization in March 2022 and a \$316mm residential whole loan securitization in March 2022.
5. Issuer ranking data from Inside Conforming Markets as of January 9, 2022.
6. Represents a non-GAAP financial measure. Refer to the Non-GAAP Financial Measures section of the 10-K for additional information.
7. Represents operating expenses as a percentage of average equity and excludes transaction expenses and nonrecurring items for the year ended December 31, 2021.

Annaly Investment Strategies

Source: Company filings. Financial data as of December 31, 2021.

1. Permanent capital represents Annaly's total stockholders' equity as of December 31, 2021.
2. Investment strategy pie charts are calculated off of total assets.
3. Represents the capital allocation for each of the investment strategies and is calculated as the difference between each investment strategy's allocated assets, which include TBA purchase contracts, and liabilities. Dedicated capital allocations as of December 31, 2021 assume capital related to held for sale assets will be redeployed within the Agency business. Dedicated capital allocations as of December 31, 2021 exclude commercial real estate assets.

Our Investment Strategies | Agency

Source: Company filings. Financial data as of December 31, 2021.

1. Assets include TBA purchase contracts (market value) of \$20.3bn and \$44mm of retained securities that are eliminated in consolidation.
2. Includes TBA purchase contracts, MSR as well as capital related to held for sale assets.
3. Represents Agency's hedging profile and does not reflect Annaly's full hedging activity.

Our Investment Strategies | Mortgage Servicing Rights

Source: Company filings. Financial data as of December 31, 2021.

1. MSR assets include limited partnership interests in two MSR funds, one of which is reported in Other Assets.
2. Dedicated capital does not include cash, other assets and other liabilities.
3. Represents the capital allocation for each of the investment strategies and is calculated as the difference between each investment strategy's allocated assets, which include TBA purchase contracts, and liabilities. Dedicated capital allocations as of December 31, 2021 assume capital related to held for sale assets will be redeployed within the Agency business. Dedicated capital allocations as of December 31, 2021 exclude commercial real estate assets.
4. Q3 2021 MSR assets exclude \$86mm of legacy MSR holdings that were held for sale as of September 30, 2021 and sold in Q4 2021.
5. Represents limited partnership interests in two MSR funds, one of which is reported in Other Assets.

Endnotes (cont'd)

Our Investment Strategies | Residential Credit

Source: Company filings. Financial data as of December 31, 2021.

1. Assets include \$781mm of retained securities that are eliminated in consolidation and are shown net of participations issued totaling \$1.0bn.
2. Includes six deals that priced in 2022: a \$557mm residential whole loan securitization in January 2022, a \$377mm residential whole loan securitization in January 2022, a \$467mm residential whole loan securitization in February 2022, a \$439mm residential whole loan securitization in February 2022, a \$331mm residential whole loan securitization in March 2022 and a \$316mm residential whole loan securitization in March 2022.

Our Investment Strategies | Middle Market Lending

Source: Company filings. Financial data as of December 31, 2021.

1. Includes \$27.9mm of general reserves on funded exposures under CECL at December 31, 2021.
2. Represents current AMML portfolio data as of December 31, 2021 and does not include ACOM assets.
3. Average Investment Size based on AMML principal balance outstanding as of December 31, 2021.
4. Represents leverage rather than economic leverage and includes non-recourse debt.
5. New financing is inclusive of change of control transactions, or add-ons with an existing borrower. A refinancing transaction represents amended terms under an existing or new credit agreement with a borrower, whereby our initial involvement is part of a facility exchanging the newly issued debt from that facility for a like amount of debt being refunded. Recapitalizations involve no new change in ownership or new cash equity, constituting a change of control as defined in a credit agreement, with proceeds from any debt facility in which we originate involving use of debt proceeds that return money to ownership of the borrower.

Financing, Capital & Liquidity

Source: Company filings. Financial data as of December 31, 2021.

1. Includes 10 whole loan securitizations totaling \$3.9bn in 2021, a \$557mm residential whole loan securitization in January 2022, a \$377mm residential whole loan securitization in January 2022, a \$467mm residential whole loan securitization in February 2022, a \$439mm residential whole loan securitization in February 2022, a \$331mm residential whole loan securitization in March 2022 and a \$316mm residential whole loan securitization in March 2022.
2. Represents \$552mm raised through the Company's at-the-market sales program for its common stock net of sales agent commissions and other offering expenses. Does not include 2022 year-to-date activity.
3. Represents share of total stockholders' equity attributable to common stockholders.
4. Represents Annaly's investments that are on-balance sheet as well as investments that are off-balance sheet in which Annaly has economic exposure. Assets include TBA purchase contracts (market value) of \$20.3bn, CMBX derivatives (market value) of \$0.4bn and \$0.8bn of retained securities that are eliminated in consolidation and are shown net of participations issued totaling \$1.0bn.
5. Repo balances exclude Resi-Credit credit facilities.
6. Includes Residential Credit securitizations.

2021 Strategic Milestones

Source: Company filings. Financial data as of December 31, 2021.

1. MSR assets include limited partnership interests in two MSR funds, one of which is reported in Other Assets.
2. Purchaser ranking data sourced from eMBS as of December 31, 2021.
3. Includes 10 whole loan securitizations totaling \$3.9bn in 2021, a \$557mm residential whole loan securitization in January 2022, a \$377mm residential whole loan securitization in January 2022, a \$467mm residential whole loan securitization in February 2022, a \$331mm residential whole loan securitization in March 2022 and a \$316mm residential whole loan securitization in March 2022.
4. Issuer ranking data from Inside Conforming Markets as of January 9, 2022.
5. Dividend yield is based on annualized Q4 2021 dividend of \$0.22 and a common stock closing price of \$7.82 on December 31, 2021.
6. Represents \$552mm raised through the Company's at-the-market sales program for its common stock net of sales agent commissions and other offering expenses. Does not include 2022 year-to-date activity.
7. Represents operating expenses as a percentage of average equity and excludes transaction expenses and nonrecurring items for the year ended December 31, 2021.

Board Composition & Shareholder Engagement

Board composition as of April 2022.

1. Representative of outreach during 2021-2022 proxy season and shareholder base as of December 31, 2021. Shareholder data per Ipreo.

Board of Directors

Board composition as of April 2022.

Safe Harbor Notice

This Annual Report is issued by Annaly Capital Management, Inc. ("Annaly"), an internally-managed, publicly traded company that has elected to be taxed as a real estate investment trust for federal income tax purposes. This Annual Report is provided for investors in Annaly for informational purposes only and is not an offer to sell, or a solicitation of an offer to buy, any security or instrument.

Cautionary Note Regarding Forward-Looking Statements

This Annual Report contains or incorporates by reference certain forward-looking statements which are based on various assumptions (some of which are beyond our control) and may be identified by reference to a future period or periods or by the use of forward-looking terminology, such as "may," "will," "believe," "expect," "anticipate," "continue," or similar terms or variations on those terms or the negative of those terms. Actual results could differ materially from those set forth in forward-looking statements due to a variety of factors, including, but not limited to, risks and uncertainties related to the COVID-19 pandemic, including as related to adverse economic conditions on real estate-related assets and financing conditions (and our outlook for our business in light of these conditions, which is uncertain); 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; operational risks or risk management failures by us or critical third parties, including cybersecurity incidents; our ability to grow our residential credit business; our ability to grow our middle market lending business; credit risks related to our investments in credit risk transfer securities, residential mortgage-backed securities and related residential mortgage credit assets and corporate debt; risks related to investments in mortgage servicing rights; our ability to consummate any contemplated investment opportunities; changes in government regulations or policy affecting our business; our ability to maintain our qualification as a REIT for U.S. federal income tax purposes; and our ability to maintain our exemption from registration under the Investment Company Act. For a discussion of the risks and uncertainties which could cause actual results to differ from those contained in the forward-looking statements, see "Risk Factors" in our most recent Annual Report on Form 10-K and any subsequent Quarterly Reports on Form 10-Q. The Company does not undertake, and specifically disclaims 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 routinely posts important information for investors on the Company's website, www.annaly.com. Annaly intends to use this webpage as a means of disclosing material, non-public information, for complying with the Company's disclosure obligations under Regulation FD and to post and update investor presentations and similar materials on a regular basis. Annaly encourages investors, analysts, the media and others interested in Annaly to monitor the Company's website, in addition to following Annaly's press releases, SEC filings, public conference calls, presentations, webcasts and other information it posts from time to time on its website. To sign-up for email-notifications, please visit the "Investors" section of our website, www.annaly.com, then click on "Investor Resources" and select "Email Alerts" to complete the email notification form. The information contained on, or that may be accessed through, the Company's webpage is not incorporated by reference into, and is not a part of, this document.

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

Regardless of source, information is believed to be reliable for purposes used herein, but Annaly makes no representation or warranty as to the accuracy or completeness thereof and does not take any responsibility for information obtained from sources outside of Annaly. Certain information contained in the presentation discusses general market activity, industry or sector trends, or other broad-based economic, market or political conditions and should not be construed as research or investment advice.



ANNALY[®]

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