ANNALY®

Fourth Quarter 2016 Investor Presentation

February 15, 2017

Safe Harbor Notice

This presentation, other written or oral communications and our public documents to which we refer contain or incorporate by reference certain forward-looking statements which are based on various assumptions (some of which are beyond our control) and may be identified by reference to a future period or periods or by the use of forward-looking terminology, such as "may," "will," "believe," "expect," "anticipate," "continue," or similar terms or variations on those terms or the negative of those terms. Actual results could differ materially from those set forth in forward-looking statements due to a variety of factors, including, but not limited to, changes in interest rates; changes in the yield curve; changes in prepayment rates; the availability of mortgage-backed securities and other securities for purchase; the availability of financing and, if available, the terms of any financings; changes in the market value of our assets; changes in business conditions and the general economy; our ability to grow our commercial business; our ability to grow our residential mortgage credit business; credit risks related to our investments in credit risk transfer securities, residential mortgage-backed securities and related residential mortgage credit assets, commercial real estate assets and corporate debt; risks related to investments in mortgage servicing rights and ownership of a servicer; our ability to consummate any contemplated investment opportunities; changes in government regulations affecting our business; our ability to maintain our qualification as a REIT; and our ability to maintain our exemption from registration under the Investment Company Act of 1940, as amended. For a discussion of the risks and uncertainties which could cause actual results to differ from those contained in the forward-looking statements, see "Risk Factors" in our most recent Annual Report on Form 10-K and any subsequent Quarterly Reports on Form 10-Q. We do not undertake, and specifically disclaim any obligation, to publicly release the result of any revisions which may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements, except as required by law.

<u>Non-GAAP Financial Measures</u>

This presentation includes certain non-GAAP financial measures. Based upon recent regulatory guidance and interpretations on the use of non-GAAP financial measures, beginning with the fourth quarter 2016, the Company will report core earnings metrics (revised) that include the PAA. In addition, this is the final quarter that the Company will report core earnings metrics (unrevised) that exclude the PAA. In future periods, the Company will not make an adjustment to GAAP net income (loss) to exclude the PAA. However, given its usefulness in evaluating the Company’s financial performance, the Company will continue to separately disclose the PAA. Additionally, comparative prior period results reported in future periods will conform to the revised presentation.

The Company believes its non-GAAP financial measures are useful for management, investors, analysts, and other interested parties in evaluating the Company’s performance but should not be viewed in isolation and are not a substitute for financial measurements computed in accordance with GAAP. Please see the section entitled “Non-GAAP Reconciliations” in the attached Appendix for a reconciliation to the most directly comparable GAAP financial measures.

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Overview

Annaly is a Leading Diversified Capital Manager

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Agency

$87.7bn Assets [(1)] | $9.7bn Capital

The Annaly Agency Group invests in Agency Mortgage-Backed Securities (MBS)

Residential Credit

$2.5bn Assets | $0.9bn Capital

The Annaly Residential Credit Group invests in non-Agency residential mortgage assets within securitized products and whole loan markets

Commercial Real Estate (CRE)

$2.3bn Assets [(2)] | $1.2bn Capital

The Annaly Commercial Real Estate Group originates and invests in commercial mortgage loans, securities, and other commercial real estate investments

Middle Market Lending (MML)

$0.8bn Assets | $0.5bn Capital

The Annaly Middle Market Lending Group provides customized debt financing to middle-market businesses

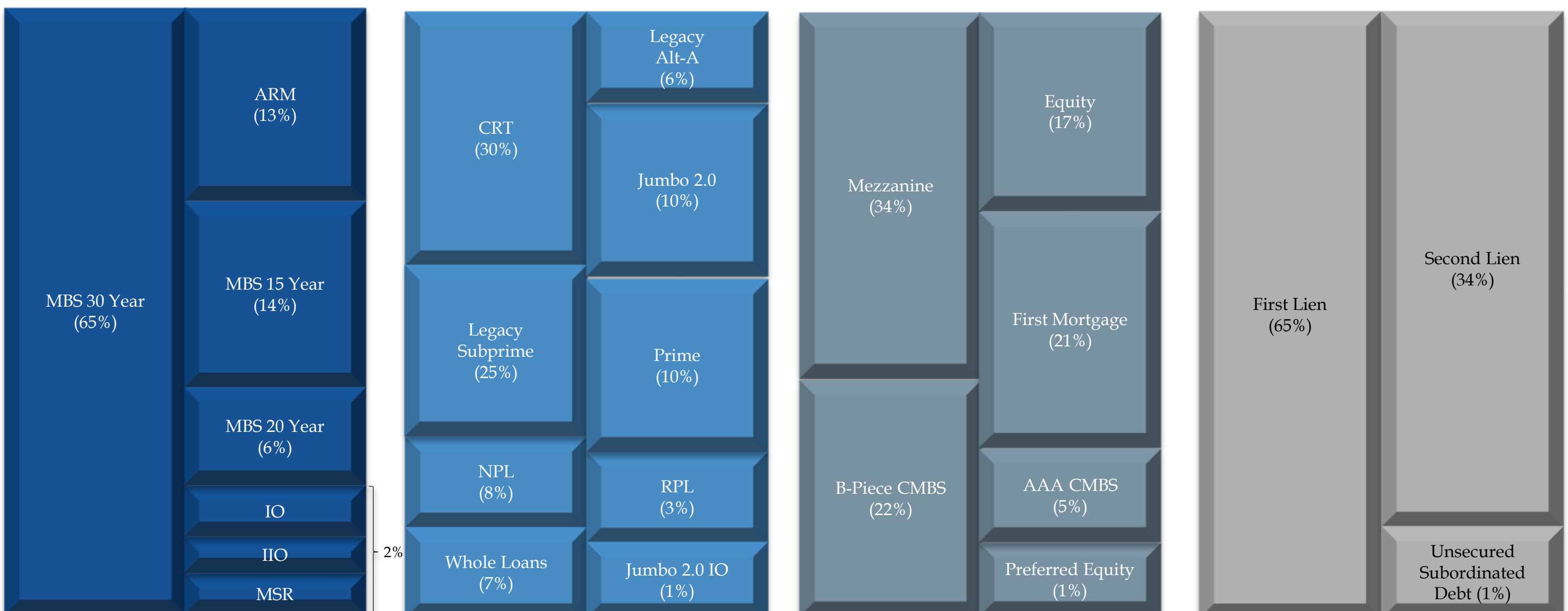
- ✓ Largest mREIT with an equity base approaching $13 billion
- ✓ Nearly $15 billion of dividends paid since initial public offering (IPO)
- ✓ Total return of 664% since IPO compared to 235% and 147% for the S&P 500 and the mREIT sector, respectively [(3)]
- ✓ Permanent capital solution for the redistribution of MBS, residential credit, CRE assets and middle market loans
- ✓ Diversified investment platform built to manage various interest rate and economic environments
- ✓ Conservative leverage profile with a variety of potential financing sources for each investment group

Source: Bloomberg, Company filings. Financial data as of December 31, 2016. Market data as of January 31, 2017.
(1) Agency assets include TBA purchase contracts (market value).
(2) CRE assets are exclusive of consolidated variable interest entities (VIEs) associated with B-Piece commercial mortgage-backed securities.
(3) mREIT sector represented by Bloomberg mREIT Index (BBREMTG).

Annaly's Diversification Strategy: Book Value Protection & Earnings Stability

Across Annaly's four investment groups, the Company has twenty-five investment options with fixed and floating rate exposure

Agency	Residential Credit	Commercial Real Estate	Middle Market Lending
Assets: $87.7bn (1) Levered Return: 10-11% (3)	Assets: $2.5bn Levered Return: 9-11% (3)	Assets: $2.3bn (2) Levered Return: 9-10% (3)	Assets: $0.8bn Levered Return: 10-11% (3)
Balanced and conservative portfolio construct mitigates downside of total return	Natural hedge to fixed rate Agency MBS portfolio; attractive relative value	Stable and transitional assets. Well capitalized, quality, top-tier sponsors	Attractive risk-adjusted yields on an unlevered basis. Flexible capital capable of investing across capital structure



Note: Financial data as of December 31, 2016. Box sizes indicative of portfolio mix and are not to scale. Agency percentages based on fair market value. Residential Credit percentages based on fair market value and reflect economic interest in securitizations. Commercial Real Estate percentages based on economic interest. Middle Market Lending percentages based on principal outstanding.

(1) Agency assets include TBA purchase contracts.
(2) CRE assets are exclusive of consolidated VIEs associated with B-Piece commercial mortgage-backed securities.
(3) Levered returns represent levered net interest spread using a blend of products within each sector.

Sum of the Parts Capital Diversification

Annaly is positioned as a permanent capital solution for the redistribution of MBS, residential credit, CRE assets and middle market loans

	Agency	Residential Credit	Commercial Real Estate	Middle Market Lending
$ Amount / % of Total Capital [1]	$9.7bn / 80%	$0.9bn / 7%	$1.2bn / 9% [2]	$0.5bn / 4%
Assets	▪ Spec Pools ▪ ARMs ▪ IO / MSR ▪ TBA	▪ CRT ▪ NPL/RPL ▪ Legacy ▪ Whole Loans ▪ IO	▪ First Mortgages ▪ Mezzanine/Pref. Equity ▪ CRE Equity ▪ CMBS ▪ B-Piece	▪ First Lien ▪ Second Lien ▪ Subordinated Debt
Hedges	▪ Swaps ▪ Euro Dollar Futures ▪ Treasury Futures	▪ Swaps ▪ Euro Dollar Futures ▪ Treasury Futures	-	-
Financing	▪ Repo ▪ RCap Securities ▪ FHLB	▪ Repo ▪ FHLB	▪ Securitization ▪ Credit Facilities ▪ First Mortgages ▪ Note Sales ▪ FHLB	▪ Credit Facilities
Liquidity	High Liquidity	Moderate Liquidity	Low to Moderate Liquidity	Moderate Liquidity
Income Stability	Fluctuates	Fluctuates	Fairly Stable	Fairly Stable
Book Value Impact	Higher Impact	Higher Impact	Low to Moderate Impact	Low Impact
Levered Return [3]	10-11%	9-11%	9-10%	10-11%

Note: Financial data as of December 31, 2016.

(1) Dedicated capital excludes non-portfolio related activity and varies from total stockholders' equity.

(2) Includes loans held for sale.

(3) Levered returns represent levered net interest spread using a blend of products within each sector.

Annaly's Strong Balance Sheet and Liquidity

Annaly's liability profile and large capital base provide the Company with unique competitive advantages

Total Capitalization of $82 bn

Agency & Non-Agency Repo $64.9bn

- Weighted average maturity of 96 days represents one of the longest term repo in the mREIT sector (1)
- RCap, in place since 2008, provides beneficial access to FICC market
- Strong counterparty credit quality and significant capacity available

FHLB $3.6bn

- Initial 5 year sunset (ending February 2021) for FHLB financing provides significant competitive advantage
- Current weighted average maturity of ~4 years
- Allows for financing of credit assets at levels not achievable by most other REITs without access to FHLB funding

Commercial Financing $0.9bn

- Approximately $1.0bn of credit facilities and mortgages payable (2) providing funding capacity to support commercial credit assets
- Asset diversification provides more opportunities for lending relationships

Preferred Equity $1.2bn

- Largest preferred capital base in the mREIT sector and larger than 98% of all publicly traded REITs (3)
- mREIT sector-low (1) weighted average coupon of 7.62%

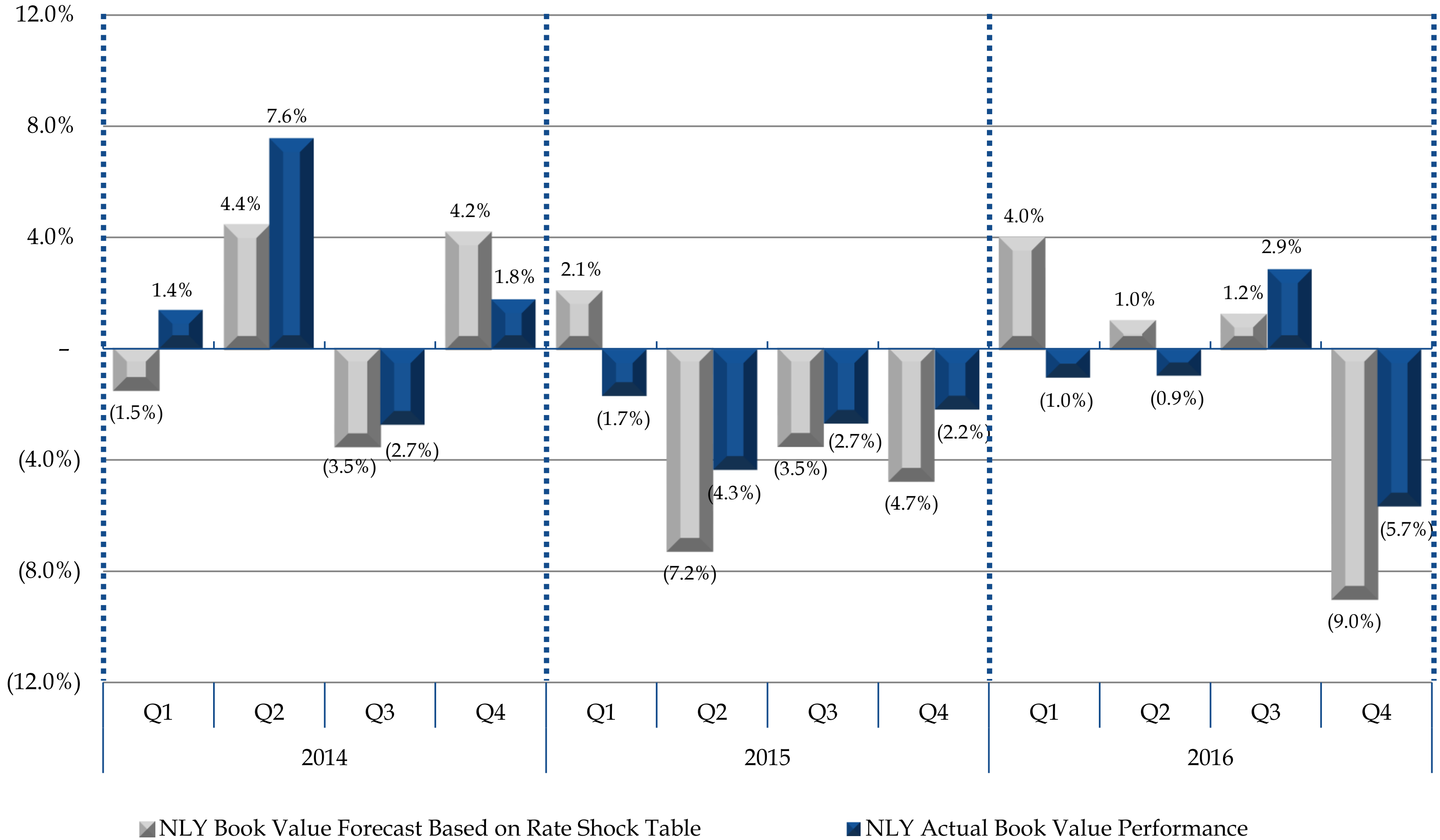
Common Equity $11.4bn

- Largest capital base in the mREIT sector and larger than 99% of all publicly traded REITs (3)
- Provides liquidity to investors and for future market opportunities not available to many other industry participants

Note: Financial data as of December 31, 2016.
(1) mREIT sector represented by BBREMTG.
(2) Includes $292mm funded on $300mm AMML credit facility and $335mm funded on ACREG facility (anticipated capacity upsize from $350mm to $500mm). Also includes $312mm of mortgages payable.
(3) Publicly traded REITs defined as all REITs within the Bloomberg United States REIT list. Financial data as of most recent quarter available.

Rate Shock Sensitivity Comparison

Annaly has proactively managed its portfolio and has significantly outperformed expected book value changes in volatile markets

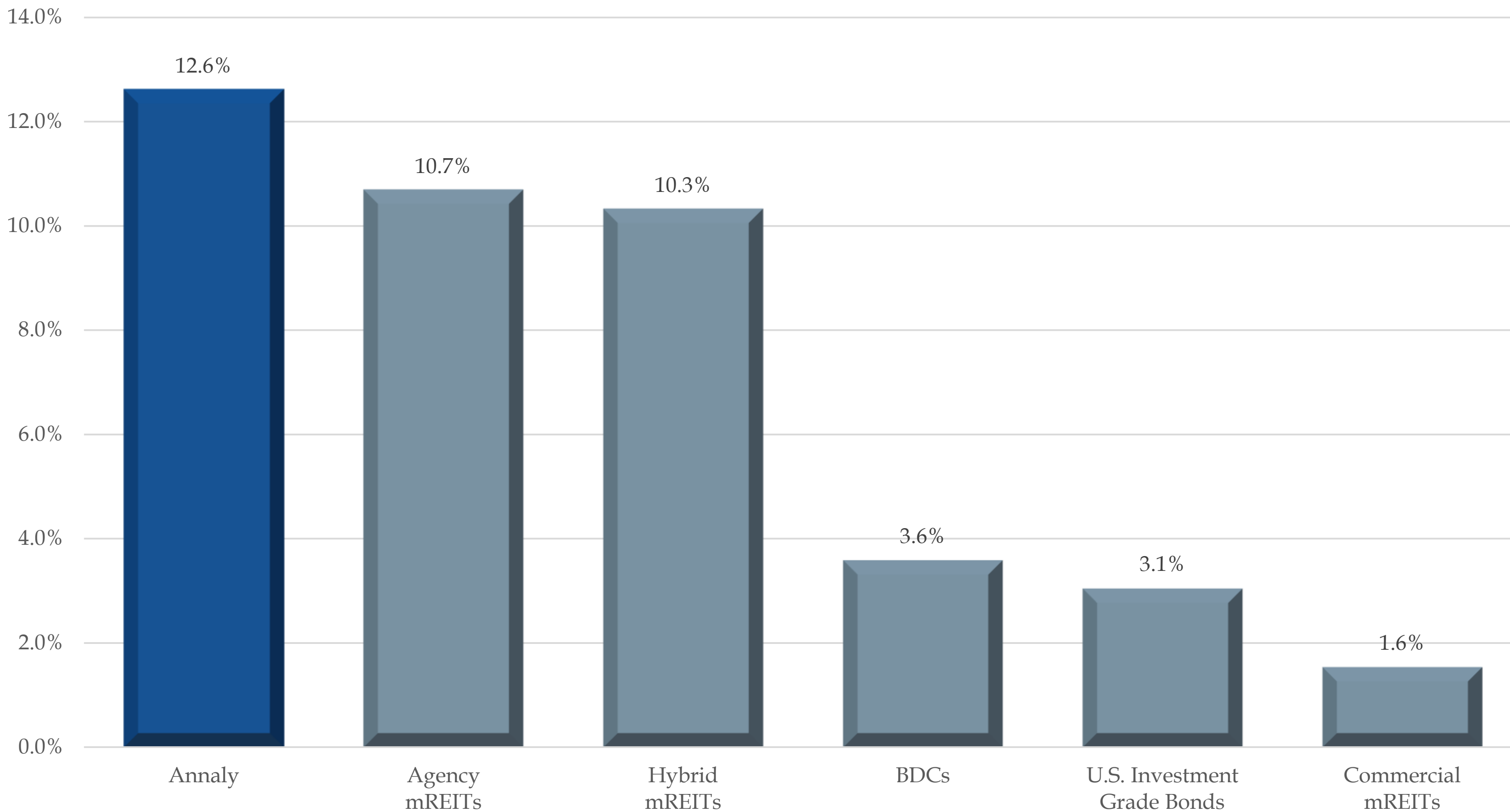


Source: Actual spreads per JPMorgan. Projected book value sensitivity based on disclosed rate and sensitivity table from Annaly's quarterly financial supplement.
Note: Financial data as of December 31, 2016. Actual change in spreads calculated based on a portfolio mix representative of estimated issuance distribution during the quarter. Actual change in rates based on a mix of UST 10-year (50%), UST 2-year (25%) and UST 5-year (25%).

Performance vs. Other mREITs and Fixed Income Strategies

Annaly's total return has outperformed in comparison to mREIT competitors and other fixed income benchmarks

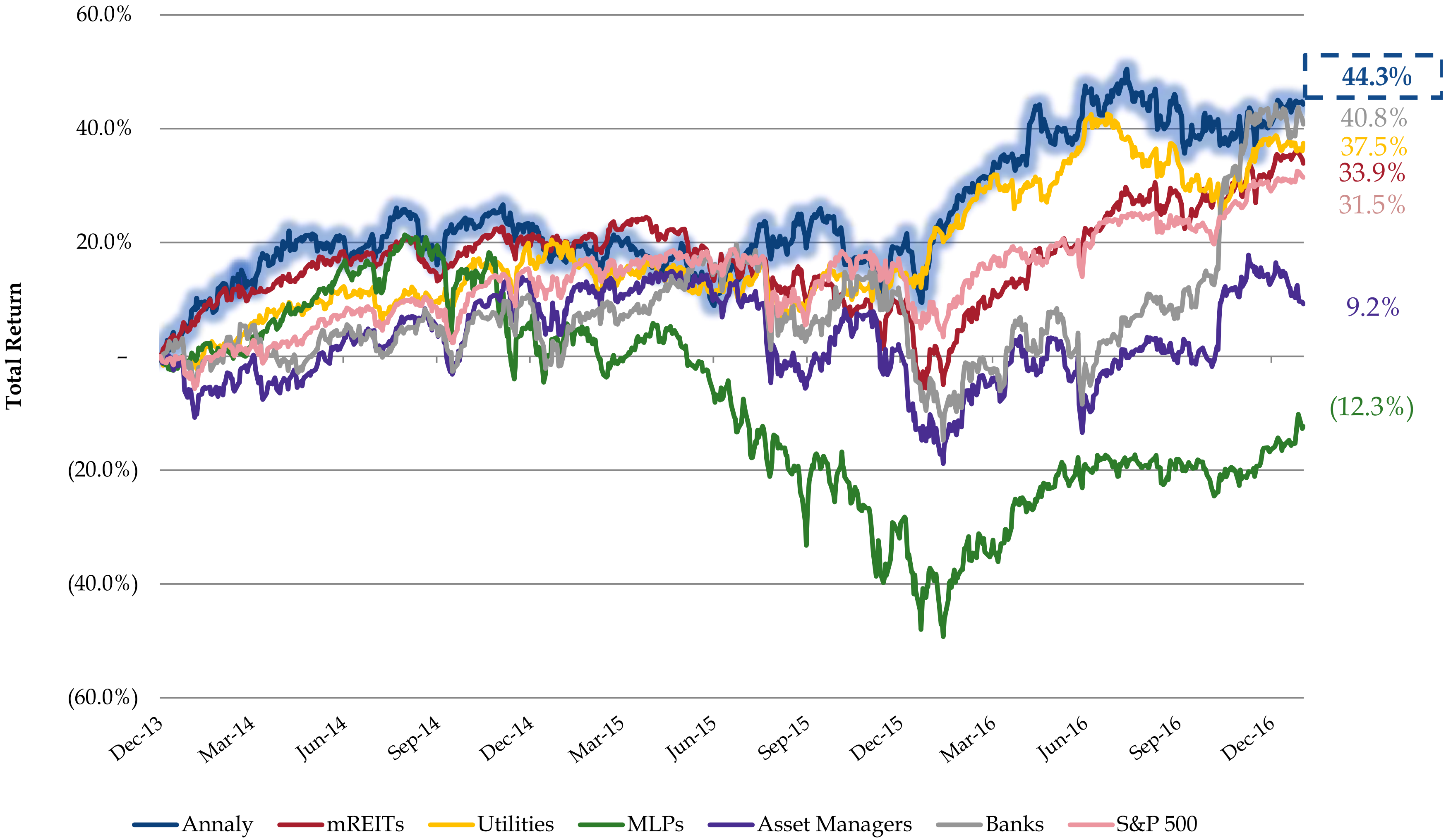
2014 – 2017 YTD Annualized Total Return Comparison



Source: Bloomberg.
Note: Market data from December 31, 2013 to January 31, 2017. Agency peer group represents AGNC, CYS, ARR, CMO and ANH. Hybrid peer group represents TWO, NRZ, CIM, MFA, IVR, PMT, RWT, MTGE, NYMT, WMC, MITT, DX and EARN. Commercial peer group represents STWD, BXMT, ACRE, ABR, STAR, ORC, RAS and RSO. BDCs represents public BDCs with market capitalization greater than $500mm (ARCC, PSEC, HTGC, MAIN, AINV, PNNT, GBDC, NMFC, TCPC, FSC, BKCC, MCC and SLRC). U.S. Investment Grade Bonds represents the Barclays US Aggregate Bond Index (LBUSTRUU Index).

Performance vs. Other Equity Yield Investments

Annaly's current investment team has outperformed all other yield options since 2014



Source: Bloomberg. mREITs represent the BBREMTG. Utilities represent the Russell 3000 Utilities Index. MLPs represent the Alerian MLP Index. Asset Managers represent the S&P 500 Asset Management and Custody Bank Index. Banks represent the KBW Bank Index.
Note: Market data from December 31, 2013 to January 31, 2017.

Market Positioning

2017 Macro Outlook

Evolving political and economic themes will drive the global macro landscape and markets in 2017

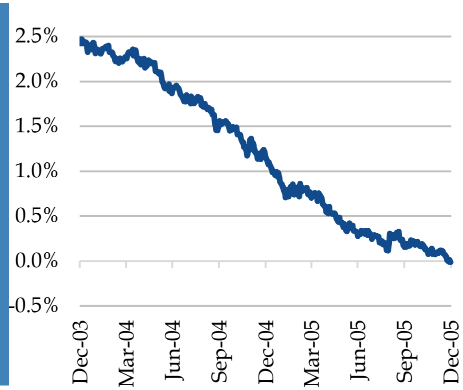
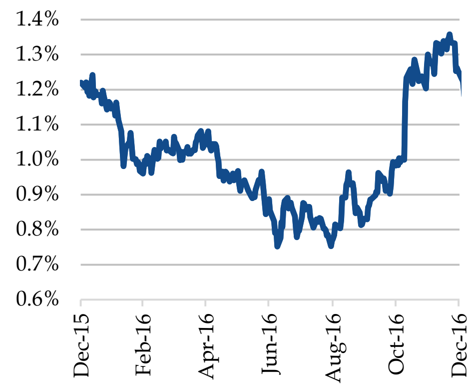
Trump Economics	▪ Details and impact of economic measures, as well as priorities of new Administration remain uncertain ▪ Questionable if proposed measures will result in sustainable growth
Federal Reserve	▪ Administration has the ability to appoint 3 Fed Governors in 2017, replace Chair and Vice Chair in 2018, and potentially pass legislation impacting the Fed ▪ Numerous questions around the Fed's reaction function amid organizational changes and impact of fiscal policy at this stage of the economic cycle
U.S. Dollar (USD) & Global Divergence	▪ USD has reached highest level since 2002 given the diverging economic prospects between the U.S. and other developed economies ▪ Rising USD should act as a governor on U.S. growth and inflation
Rising Rates / Volatility	▪ U.S. – G7 yield spread is at a multi-decade high amid diverging monetary policies; it remains uncertain how this atypical divergence will be overcome ▪ Inflation break-evens and term premia have increased, as has volatility to a lesser extent
Political Uncertainty	▪ Brexit negotiations to begin at end of Q1 2017 ▪ Upcoming elections in the Netherlands, France, and Germany (all face rising populism from the right)

Hiking Cycle Comparison

Annaly's diversified platform is now built to manage various rate environments

Market Environment

Spread 2s vs 10s

2004 / 2005	2016
	

Key Takeaways

- In contrast to the last hiking cycle, the yield curve has steepened despite the rise in short-term rates
- This is primarily attributable to growth and inflation expectations associated with new administration

Portfolio Positioning

	2004 / 2005	2016	Key Takeaways
Market Cap[1]	$1.4bn	$10.2bn	Largest mREIT globally
Asset Classes	Agency MBS	Agency MBS Resi Credit CRE Debt & Equity Corporate Debt Mortgage Servicing Rights	More durable earnings and book value
Agency Portfolio Mix	30% - 40% Fixed / Floating 60%-70% ARMs	65% Spec Pools 16% Dollar Roll 13% ARMS 5% Other [2]	Agency strategy has evolved over time to better manage various rate environments
Hedge Instruments	No explicit hedges used Barbelled portfolio	Pay Fixed/Receiver Swaps Treasuries EuroDollar Futures	Greater use of hedging to protect earnings and book value
Economic Leverage	9.0 - 9.8x	6.4x	Conservative leverage profile
Net Interest Margin (NIM)	0.70% - 1.70%	0.75% - 2.50%	Reinvestment spreads remain attractive

Source: Bloomberg and Company filings. Financial data for 2004/2005 and 2016 are as of December 31, 2005 and December 31, 2016, respectively.
(1) Market data for 2004/2005 and 2016 are as of December 31, 2005 and December 31, 2016, respectively.
(2) CMO, Derivatives, GSE Credit Risk Sharing debt and Callable debt.

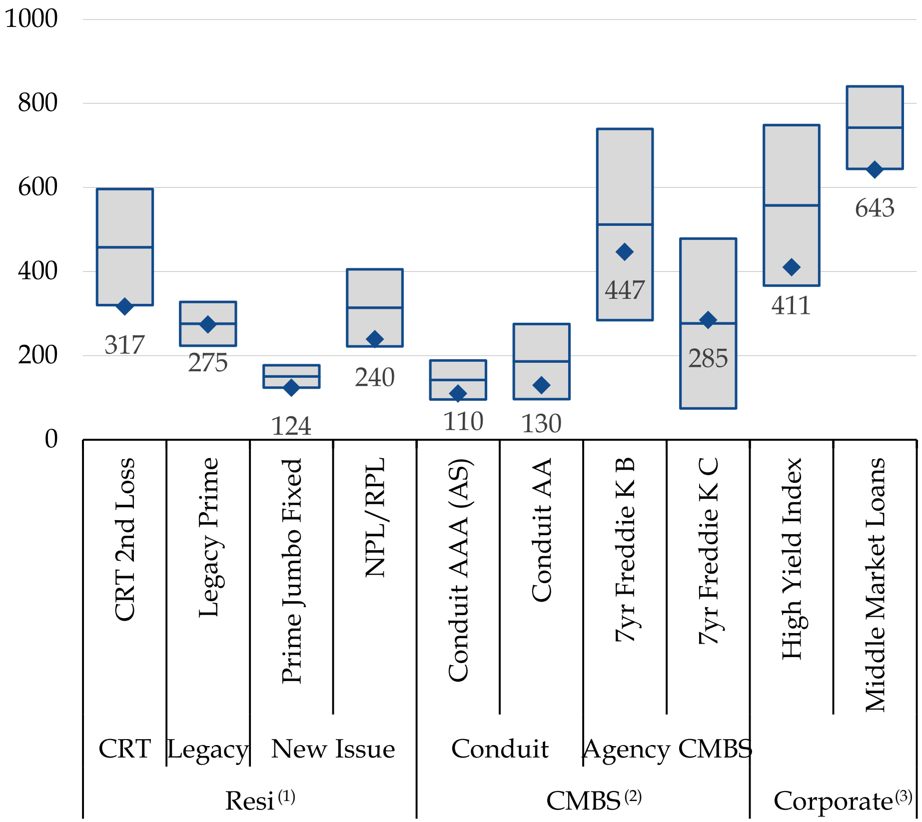
Relative Value Equation

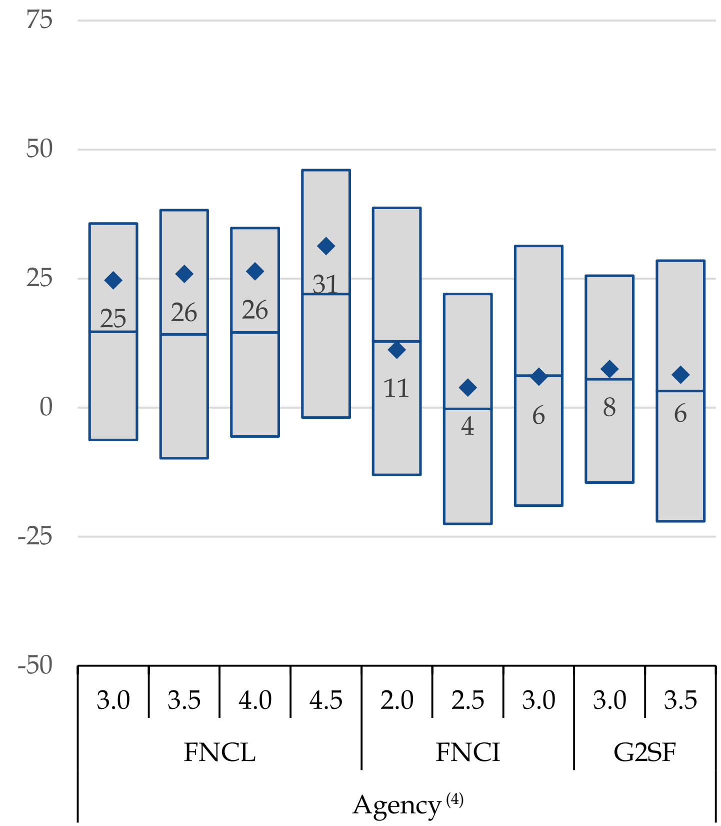
Annaly has adjusted the pace of its diversification effort to reflect significant spread tightening across all credit markets – Agency spreads look relatively attractive vs. the historical trading range

Residential, Commercial and Corporate Spreads

Agency MBS Spreads

Agency (LIBOR OAS) and Credit spreads versus a 2 year average and 2 standard deviation range, in bps





Current Spread | 2 Year Average | 2 Standard Deviation Range

(1) Source: BAML Research.
(2) Source: JPM CMBS Weekly Dashboard.
(3) Source: Middle Market LCD Index and JPM Liquid HY Summary Spread to Worst.
(4) Source: JPM Default Model.

Business Update

2016 Year-in-Review

In addition to paying ~$1.2 billion in dividends in 2016, Annaly achieved several significant milestones related to the continued evolution of its leading diversified investment platform

Portfolio & Growth Strategy

- ✓ Largest mREIT acquisition in history exemplified ability to be opportunistic
- ✓ Repositioned Agency portfolio to perform better in current rate environment
- ✓ Relative value substitution has led to measured organic growth of credit businesses
- ✓ Continued expansion of available investment options

Capital & Liability Management

- ✓ Established term FHLB financing to capitalize on 5 year sunset (1)
- ✓ Implemented and expanded dedicated financing facilities for credit businesses
- ✓ Expanded direct repo counterparties with institutional investors
- ✓ Continued focus on capital efficiency

Organizational

- ✓ Initiated Employee Stock Ownership Program in April 2016
- ✓ Highly efficient operating expense as a percentage of average equity of 1.65% (2)
- ✓ Expanded investor outreach with nearly 100 meetings/calls
- ✓ Promoted key executives including CIO, CCO and CLO (3)

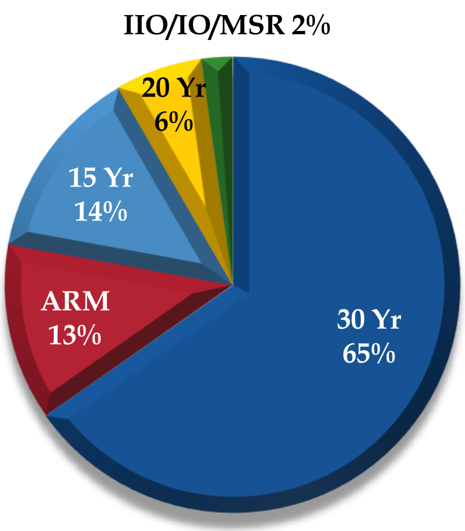
(1) FHLB sunset ends February 2021.
(2) Reflects operating expense for the year ended December 31, 2016 over average stockholders' equity. Excludes non-recurring transaction costs incurred in connection with the Company's acquisition of Hatteras Financial Corp.
(3) CIO, CCO and CLO represent Chief Investment Officer, Chief Credit Officer and Chief Legal Officer, respectively. CLO promotion will be effective March 1, 2017.

Agency MBS Portfolio

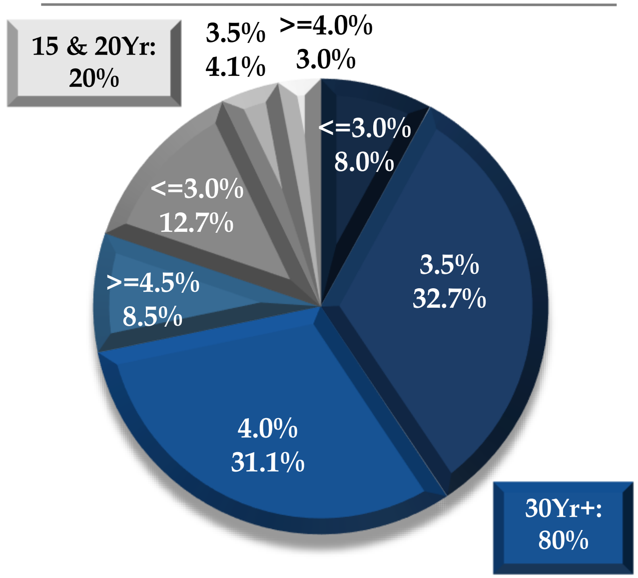
- As of Q4 2016, the market value of Agency portfolio was approximately $87.7 billion in assets, inclusive of the TBA position
- Approximately 86% of the portfolio is positioned in securities with prepayment protection
- Agency MBS underperformed hedges in Q4 given the rate selloff and higher volatility as MBS durations extended sharply and spreads widened
- The Agency investment team used a disciplined approach to manage the challenging environment in Q4 by actively rotating into more defensive sectors and closely monitoring duration profile

Total Dedicated Capital: $9.7bn

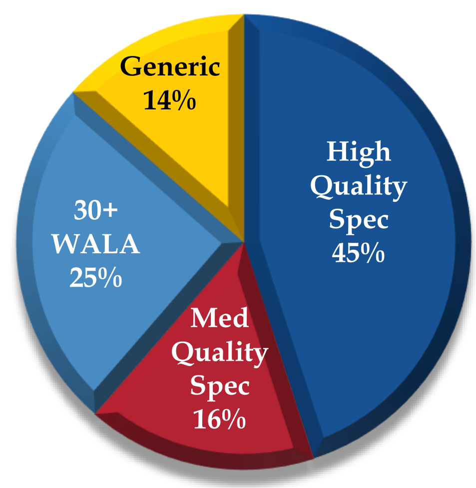
Asset Type(1)



Pass Through Coupon Type



Call Protection(2)



Note: Data as of December 31, 2016. Percentages based on fair market value and may not sum to 100% due to rounding.

(1) Asset type is inclusive of TBA purchase contracts.

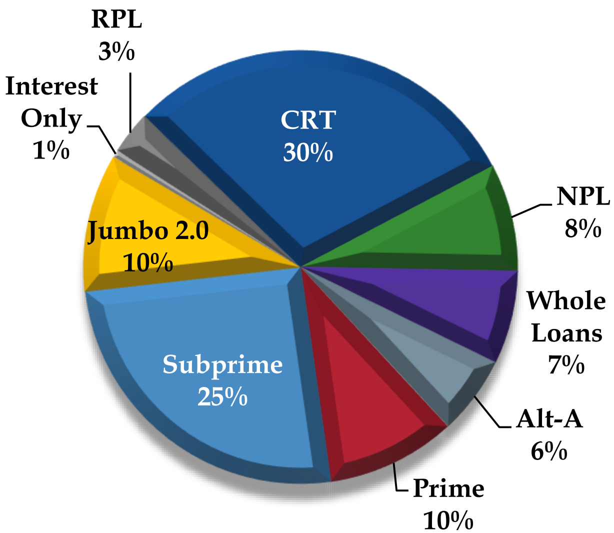
(2) "High Quality Spec" protection is defined as pools backed by original loan balances of up to $150K, higher LTV pools (CR/CQ), geographic concentrations (NY/PR). "Med Quality Spec" includes $175K loan balance, high LTV pools, FICO < 700. "30+ WALA" is defined as weighted average loan age greater than 30 years.

Residential Credit Portfolio

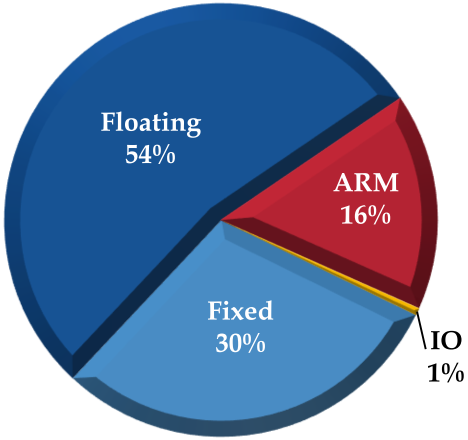
- As of Q4 2016, the portfolio grew to $2.5 billion in assets and is comprised of the following sectors:
  - **Credit Risk Transfer:** Faster speeds resulted in shortening spread duration and increased credit enhancement; expect increased liquidity in assets and funding
  - **Jumbo 2.0 Securities:** AAA seniors ended 2016 trading significantly tighter to Agency collateral compared to year end 2015. Securitization execution is now marginally more profitable than outright loan sales
  - **NPL/RPL Securities:** Unrated senior yields have tightened approximately 75bps year over year, while funding costs are higher, driven by an uptick in LIBOR
  - **Legacy[(1)]:** Market has started to trade with empirical duration due to higher discount rates/rate selloff
  - **Whole Loans**: Expect continued expansion of whole loan platform to maximize efficiency of FHLB funding

Total Dedicated Capital: $0.9bn

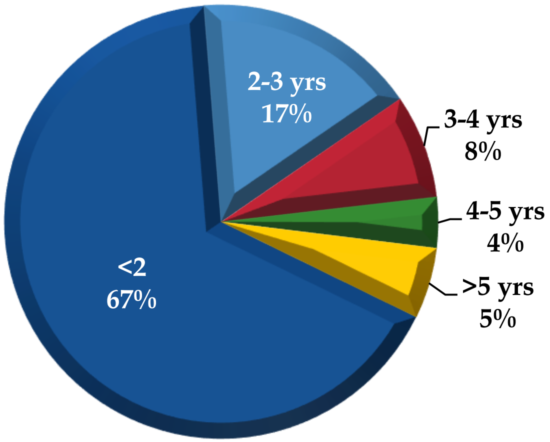
Sector Type



Coupon Type



Effective Duration



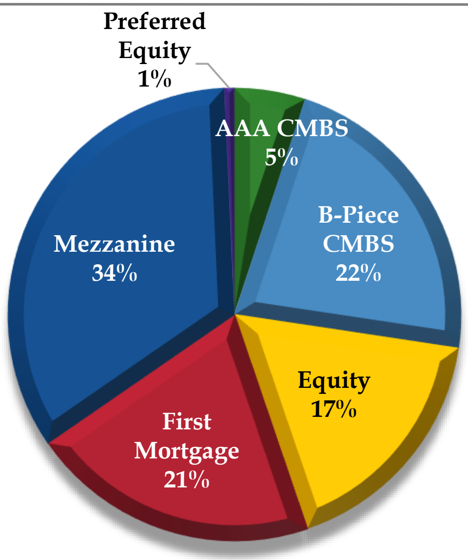
Note: Data as of December 31, 2016. Percentages based on fair market value and reflect economic interest in securitizations. Jumbo 2.0 includes the economic interest of certain positions that are classified as Residential Mortgage Loans within our Consolidated Financial Statements. Percentages may not sum to 100% due to rounding.
(1) Legacy includes subprime, prime and Alt-A.

Commercial Real Estate Portfolio

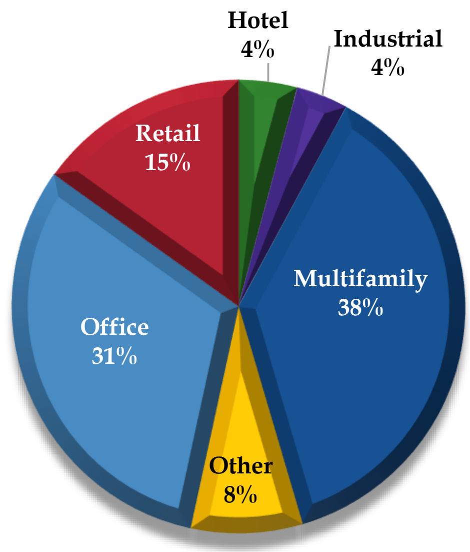
- As of Q4 2016, the commercial real estate portfolio was approximately $2.3 billion in assets[(1)]
- The combination of a significant decline in new acquisition activity by sponsors, a volatile marketplace and a cautious stance on credit resulted in a slower pace of new investments in 2016
  - $501 million of investment activity in 2016
  - $136 million of new investments closed in Q4 2016
  - $917 million of paydowns in 2016 along with $206 million in Institutional A-Note and Equity sales
    - Borrowers achieved business plans / assets appreciated in value
- Active pipeline with quality opportunities, but will remain disciplined
  - We are positioned to grow the portfolio with the right risk-adjusted opportunities

Total Dedicated Capital: $1.2bn

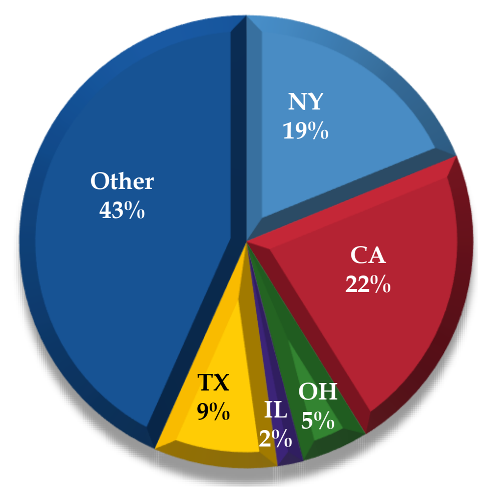
Asset Type



Sector Type



Geographic Concentration[(2)]



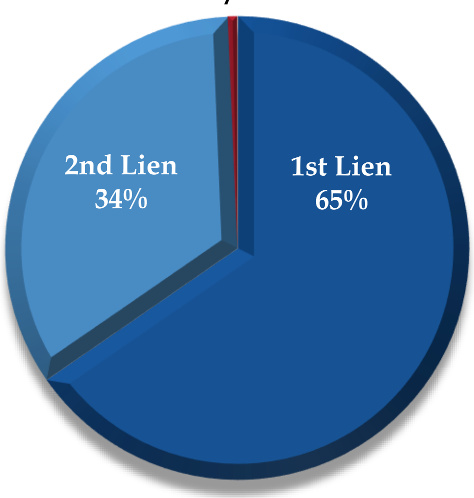
Note: Percentages based on economic interest and may not sum to 100% due to rounding. Financial data as of December 31, 2016.
(1) CRE assets are exclusive of consolidated VIEs associated with B-Piece commercial mortgage-backed securities.
(2) Other includes 24 states, none of which represent more than 5% of total portfolio value.

Middle Market Lending Portfolio

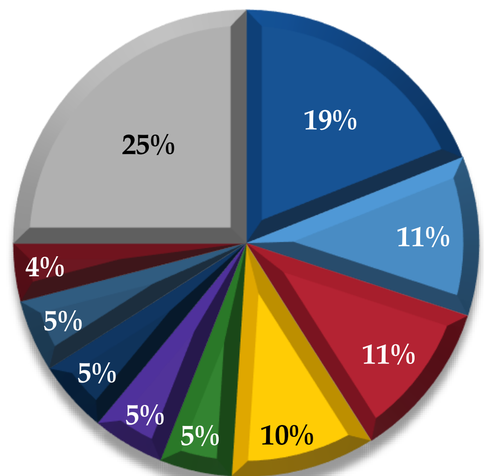
- As of Q4 2016, the middle market lending portfolio grew to nearly $800 million in assets
- A combination of repeat sponsor business, heightened activity in industries of origination focus and larger ownership positions resulted in increased new deal origination during Q4 2016
- Unlevered portfolio yield of 7.6% at the end of Q4 2016
- Closed $300 million credit facility in Q2 2016
  - $293 million funded under the facility at the end of Q4 2016

Total Dedicated Capital: $0.5bn

Lien Position

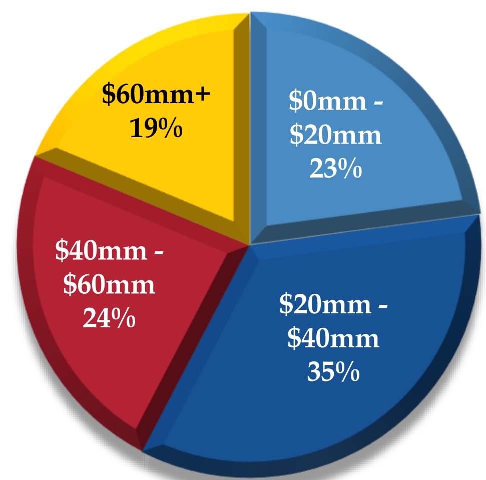


Industry[(1)]



- Computer Prgm & Data Processing
- Miscellaneous Business Services
- Offices and Clinics of Doctors of Medicine
- Insurance Agents, Brokers and Service
- Commercial Fishing
- Home Health Care Services
- Personnel Supply Services
- Drugs
- Aircraft and Parts
- Other

Loan Size[(2)]



Note: Data as of December 31, 2016. Percentages based on principal outstanding and may not sum to 100% due to rounding.

(1) Based on Standard Industrial Classification (SIC) industry categories.

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

Performance Highlights and Trends

Unaudited, dollars in thousands except per share amounts

	For the quarters ended				
	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015
GAAP net income (loss) per average common share	$1.79	$0.70	($0.32)	($0.96)	$0.69
Core earnings per average common share (unrevised - excluding PAA)* (1)	$0.30	$0.29	$0.29	$0.30	$0.31
Less: PAA cost (benefit) per average common share	($0.23)	$0.00	$0.10	$0.19	($0.02)
Core earnings per average common share (revised - including PAA)* (1)	$0.53	$0.29	$0.19	$0.11	$0.33
Dividends declared per common share	$0.30	$0.30	$0.30	$0.30	$0.30
Book value, per common share	$11.16	$11.83	$11.50	$11.61	$11.73
Annualized return (loss) on average equity	57.23%	23.55%	(9.60%)	(29.47%)	22.15%
Annualized core return on average equity (unrevised - excluding PAA)*	10.13%	10.09%	9.73%	9.91%	10.30%
Annualized core return on average equity (revised - including PAA)*	17.53%	10.09%	6.78%	4.19%	10.89%
Net interest margin	2.49%	1.40%	1.15%	0.79%	1.80%
Core net interest margin (excluding PAA)	1.53%	1.42%	1.54%	1.54%	1.71%
Agency mortgage-backed securities and debentures	$75,589,873	$73,476,105	$64,862,992	$65,596,859	$65,870,262
Mortgage servicing rights	652,216	492,169	-	-	-
Residential credit portfolio (2)	2,468,318	2,439,704	1,717,870	1,658,674	1,363,232
Commercial real estate investments (3)	5,881,236	6,033,576	6,168,723	6,385,579	5,075,191
Corporate debt	773,274	716,831	669,612	639,481	488,508
Total residential and commercial investments	$85,364,917	$83,158,385	$73,419,197	$74,280,593	$72,797,193
Leverage, at period-end (4)	5.8x	5.3x	5.3x	5.3x	5.1x
Economic leverage, at period-end (5)	6.4x	6.1x	6.1x	6.2x	6.0x
Credit portfolio as a percentage of stockholders' equity (6)	20%	22%	24%	25%	23%

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

(1) The Company revised its definition of core earnings to include the PAA. Core earnings (unrevised) excluded the PAA. This is the final quarter that the Company will report core earnings metrics that exclude the PAA. Beginning with the fourth quarter 2016, core earnings (revised) is defined as net income (loss) excluding gains or losses on disposals of investments and termination of interest rate swaps, unrealized gains or losses on interest rate swaps and investments measured at fair value through earnings, net gains and losses on trading assets, impairment losses, net income (loss) attributable to noncontrolling interest, corporate acquisition related expenses and certain other non-recurring gains or losses, and inclusive of dollar roll income (a component of Net gains (losses) on trading assets) and realized amortization of MSRs (a component of net unrealized gains (losses) on investments measured at fair value through earnings).

(2) Includes non-Agency securities, credit risk transfer securities and residential mortgage loans.

(3) Includes consolidated VIEs and loans held for sale.

(4) Includes repurchase agreements, other secured financing, securitized debt of consolidated VIEs, participation sold and mortgages payable.

(5) Computed as the sum of recourse debt, TBA derivative notional outstanding and net forward purchases of investments divided by total equity. Recourse debt consists of repurchase agreements, other secured financing and Convertible Senior Notes. Securitized debt, participation sold and mortgages payable are non-recourse to the Company and are excluded from this measure.

(6) Represents CRT securities, non-Agency mortgage-backed securities, residential mortgage loans, commercial real estate debt investments and preferred equity investments, loans held for sale, investments in commercial real estate and corporate debt, net of financing.

Appendix: Non-GAAP Reconciliations

Non-GAAP Reconciliations

Unaudited, dollars in thousands except per share amounts

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

	For the quarters ended					For the years ended		
	Dec. 31, 2016	Sept. 30, 2016	June 30, 2016	Mar. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014
GAAP to Core Reconciliation								
GAAP net income (loss)	$1,848,483	$730,880	($278,497)	($868,080)	$669,666	$1,432,786	$465,747	($842,279)
Less:								
Realized (gains) losses on termination of interest rate swaps	55,214	(1,337)	60,064	-	-	113,941	226,462	779,333
Unrealized (gains) losses on interest rate swaps	(1,430,668)	(256,462)	373,220	1,031,720	(463,126)	(282,190)	124,869	948,755
Net (gains) losses on disposal of investments	(7,782)	(14,447)	(12,535)	1,675	7,259	(33,089)	(50,987)	(93,716)
Net (gains) losses on trading assets	139,470	(162,981)	(81,880)	(125,189)	(42,584)	(230,580)	(29,623)	245,495
Net unrealized (gains) losses on investments measured at fair value through earnings	(110,742)	(29,675)	54,154	(128)	62,703	(86,391)	103,169	86,172
Bargain purchase gain	-	(72,576)	-	-	-	(72,576)	-	-
Impairment of goodwill	-	-	-	-	-	-	22,966	-
Corporate acquisition related expenses	-	46,724	2,163	-	-	48,887	-	-
Net (income) loss attributable to non-controlling interests	87	336	385	162	373	970	809	196
Other non-recurring loss	-	-	-	-	-	-	-	23,783
Premium amortization adjustment cost (benefit)	(238,941)	3,891	85,583	168,408	(18,072)	18,941	73,365	25,538
Plus:								
TBA dollar roll income	98,896	90,174	79,519	83,189	94,914	351,778	348,531	-
MSR amortization	(27,018)	(21,634)	-	-	-	(48,652)	-	-
Core earnings (unrevised - excluding PAA)	$326,999	$312,893	$282,176	$291,757	$311,133	$1,213,825	$1,285,308	$1,173,277
Add back:								
Premium amortization adjustment benefit (cost)	238,941	(3,891)	(85,583)	(168,408)	18,072	(18,941)	(73,365)	(25,538)
Core earnings (revised - including PAA)	$565,940	$309,002	$196,593	$123,349	$329,205	$1,194,884	$1,211,943	$1,147,739
GAAP net income (loss) per average common share	$1.79	$0.70	($0.32)	($0.96)	$0.69	$1.39	$0.42	($0.96)
Core earnings per average common share (unrevised - excluding PAA)	$0.30	$0.29	$0.29	$0.30	$0.31	$1.17	$1.28	$1.16
Core earnings per average common share (revised - including PAA)	$0.53	$0.29	$0.19	$0.11	$0.33	$1.15	$1.20	$1.14
Annualized GAAP return (loss) on average equity	57.23%	23.55%	(9.60%)	(29.47%)	22.15%	11.75%	3.73%	(6.49%)
Annualized core return on average equity (unrevised - excluding PAA)	10.13%	10.09%	9.73%	9.91%	10.30%	9.96%	10.17%	9.04%
Annualized core return on average equity (revised - including PAA)	17.53%	10.09%	6.78%	4.19%	10.89%	9.81%	9.59%	8.85%

Non-GAAP Reconciliations *(Cont'd)*

Unaudited, dollars in thousands except per share amounts

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

	For the quarters ended					For the years ended		
	Dec. 31, 2016	Sept. 30, 2016	June 30, 2016	Mar. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014
Premium Amortization Reconciliation								
Premium Amortization Expense	($19,812)	$213,241	$265,475	$355,671	$159,720	$814,575	$793,657	$664,379
Less:								
PAA cost (benefit)	(238,941)	3,891	85,583	168,408	(18,072)	18,941	73,365	25,538
Premium amortization expense exclusive of PAA	$219,129	$209,350	$179,892	$187,263	$177,792	$795,634	$720,292	$638,841
Core Interest Income (excluding PAA) Reconciliation								
GAAP interest income	$807,022	$558,668	$457,118	$388,143	$576,580	$2,210,951	$2,170,697	$2,632,398
PAA cost (benefit)	(238,941)	3,891	85,583	168,408	(18,072)	18,941	73,365	25,538
Core Interest Income (excluding PAA)	$568,081	$562,559	$542,701	$556,551	$558,508	$2,229,892	$2,244,062	$2,657,936
Economic Interest Expense Reconciliation								
GAAP interest expense	$183,396	$174,154	$152,755	$147,447	$118,807	$657,752	$471,596	$512,659
Add:								
Interest expense on interest rate swaps used to hedge cost of funds	92,841	103,100	108,301	123,124	135,267	427,366	570,116	825,360
Economic interest expense	$276,237	$277,254	$261,056	$270,571	$254,074	$1,085,118	$1,041,712	$1,338,019
Economic Core Net Interest Income (excluding PAA) Reconciliation								
Core interest income (excluding PAA)	$568,081	$562,559	$542,701	$556,551	$558,508	$2,229,892	$2,244,062	$2,657,936
Less:								
Economic interest expense	276,237	277,254	261,056	270,571	254,074	1,085,118	1,041,712	1,338,019
Economic core net interest income (excluding PAA)	$291,844	$285,305	$281,645	$285,980	$304,434	$1,144,774	$1,202,350	$1,319,917
Economic Core Metrics								
Core interest income (excluding PAA)	$568,081	$562,559	$542,701	$556,551	$558,508	$2,229,892	$2,244,062	$2,657,936
Average interest earning assets	$84,799,222	$82,695,270	$73,587,753	$74,171,943	$73,178,965	$78,813,547	$75,741,458	$83,846,447
Core average yield on interest earning assets (excluding PAA)	2.68%	2.72%	2.95%	3.00%	3.05%	2.83%	2.96%	3.17%
Economic interest expense	$276,237	$277,254	$261,056	$270,571	$254,074	$1,085,118	$1,041,712	$1,338,019
Average interest bearing liabilities	$72,032,600	$70,809,712	$62,049,474	$62,379,695	$60,516,996	$66,817,870	$63,535,915	$70,983,100
Average cost of interest bearing liabilities	1.53%	1.57%	1.68%	1.73%	1.68%	1.62%	1.64%	1.88%
Core net interest spread (excluding PAA)	1.15%	1.15%	1.27%	1.27%	1.37%	1.21%	1.32%	1.29%
Core net interest margin (excluding PAA)	1.53%	1.42%	1.54%	1.54%	1.71%	1.50%	1.69%	1.57%