



ANNALY®

Second Quarter 2018  
Investor Presentation

August 1, 2018

# Safe Harbor Notice

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## **Forward-Looking Statements**

This presentation includes forward-looking statements. These forward-looking statements generally can be identified by phrases such as “will,” “expects,” “anticipates,” “foresees,” “forecasts,” “estimates” or other words or phrases of similar import. Similarly, statements herein that describe the proposed transaction, including its financial and operational impact, and other statements of management’s beliefs, intentions or goals also are forward-looking statements. It is uncertain whether any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do, what impact they will have on the results of operations and financial condition of the combined companies or the price of Annaly Capital Management, Inc. (“Annaly”) or MTGE Investment Corp. (“MTGE”) stock. These forward-looking statements involve certain risks and uncertainties, many of which are beyond the parties’ control, that could cause actual results to differ materially from those indicated in such forward-looking statements, including but not limited to the ability of the parties to consummate the proposed transaction on a timely basis or at all and the satisfaction of the conditions precedent to consummation of the proposed transaction, including at least a majority of MTGE’s common shares being validly tendered into the exchange offer; that required regulatory approvals for the proposed transaction may not be obtained in a timely manner, if at all; business disruption following the merger; and the other risks and important factors contained and identified in Annaly’s and MTGE’s filings with the Securities and Exchange Commission (“SEC”), such as their respective Quarterly Reports on Form 10-Q and Annual Reports on Form 10-K, any of which could cause actual results to differ materially from the forward-looking statements. The forward-looking statements included in this presentation are made only as of the date hereof. Annaly undertakes no obligation to update the forward-looking statements to reflect subsequent events or circumstances, except as required by law.

## **Additional Information and Where to Find It**

This presentation is for informational purposes only and is neither an offer to purchase nor a solicitation of an offer to sell shares, nor is it a substitute for the exchange offer materials that Annaly and its merger subsidiary have filed with the SEC. Annaly and its merger subsidiary have filed a tender offer statement on Schedule TO, Annaly has filed a registration statement on Form S-4, and MTGE has filed a Solicitation/Recommendation Statement on Schedule 14D-9 with the SEC with respect to the exchange offer. THE EXCHANGE OFFER MATERIALS (INCLUDING AN OFFER TO EXCHANGE, A RELATED LETTER OF TRANSMITTAL AND CERTAIN OTHER EXCHANGE OFFER DOCUMENTS) AND THE SOLICITATION/RECOMMENDATION STATEMENT CONTAIN IMPORTANT INFORMATION. MTGE STOCKHOLDERS ARE URGED TO READ THESE DOCUMENTS CAREFULLY BECAUSE THEY CONTAIN IMPORTANT INFORMATION THAT HOLDERS OF MTGE SECURITIES SHOULD CONSIDER BEFORE MAKING ANY DECISION REGARDING EXCHANGING THEIR SECURITIES. The Offer to Exchange, the related Letter of Transmittal and certain other exchange offer documents, as well as the Solicitation/Recommendation Statement, are available to all holders of MTGE common stock at no expense to them. The exchange offer materials and the Solicitation/Recommendation Statement are available for free at the SEC’s website at [www.sec.gov](http://www.sec.gov). Additional copies may be obtained for free by contacting Annaly’s Investor Relations department at 1-888-8Annaly (1-888-826-6259).

In addition to the Offer to Exchange, the related Letter of Transmittal and certain other exchange offer documents, as well as the Solicitation/Recommendation Statement, Annaly and MTGE file annual, quarterly and current reports and other information with the SEC. You may read and copy any reports or other information filed by Annaly and MTGE at the SEC public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Annaly’s and MTGE’s filings with the SEC are also available to the public from commercial document-retrieval services and at the website maintained by the SEC at <http://www.sec.gov>.

## **Non-GAAP Financial Measures**

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

# Overview

# Annaly Is a Leading Diversified Capital Manager

# ANNALY®

Agency	Residential Credit	Commercial Real Estate	Middle Market Lending
The Annaly Agency Group invests in Agency MBS collateralized by residential mortgages which are guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae	The Annaly Residential Credit Group invests in Non-Agency residential mortgage assets within the securitized product and whole loan markets	The Annaly Commercial Real Estate Group originates and invests in commercial mortgage loans, securities, and other commercial real estate debt and equity investments	The Annaly Middle Market Lending Group provides financing to private equity backed middle market businesses across the capital structure
	<b>Assets<sup>(1)</sup>   Capital<sup>(2)</sup></b>		
\$95.4bn   \$9.3bn	\$2.9bn   \$1.3bn	\$2.3bn   \$1.1bn	\$1.3bn   \$1.1bn
	<b>Sector Rank<sup>(3)</sup></b>		
#1/5	#7/17	#4/12	#12/45
	<b>Strategy</b>		
<i>Countercyclical/ Defensive</i>	<i>Cyclical/Growth</i>	<i>Cyclical/Growth</i>	<i>Non-Cyclical/Defensive</i>
	<b>Levered Returns<sup>(4)</sup></b>		
9% – 11%	9% – 12%	8% – 11%	9% – 12%

Source: Bloomberg and Company filings. Market data as of July 30, 2018. Financial data as of June 30, 2018.

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

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

3. Sector rank compares Annaly dedicated capital in each of its four investment groups as of June 30, 2018 (adjusted for P/B as of July 30, 2018) to the market capitalization of the companies in each respective comparative sector as of July 30, 2018. Comparative sectors used for Agency, ACREG and Residential Credit ranking are their respective sector within the Bloomberg Mortgage REIT Index ("BBREMTG") as of July 30, 2018. Comparative sector used for Annaly Middle Market Lending Group ("AMML") ranking is the S&P BDC Index. Rankings for Agency and Residential Credit are pro forma for the pending acquisition of MTGE by Annaly (announced on May 2, 2018) and the completed acquisition of CYS by Two Harbors (closed on July 31, 2018).

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



# Second Quarter 2018 Financial Highlights

## Earnings & Book Value

### Earnings per Share

GAAP | Core  
\$0.49 | \$0.30  
(ex. PAA)\*

### Book Value Per Share

\$10.35

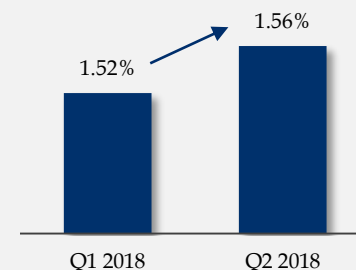
### Dividend per Share

\$0.30

### Dividend Yield<sup>(1)</sup>

11.66%

### Net Interest Margin (ex. PAA)\*



## Investment Portfolio

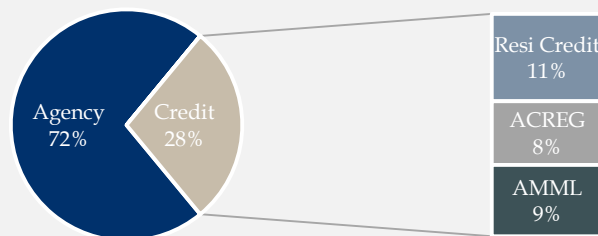
### Total Portfolio<sup>(2)</sup>

\$101.8bn

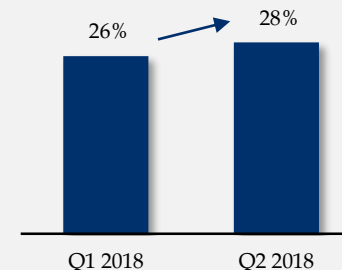
### Total Stockholders' Equity

\$13.8bn

### Capital Allocation<sup>(3)</sup>



### Allocation to Credit



## Financing & Hedging

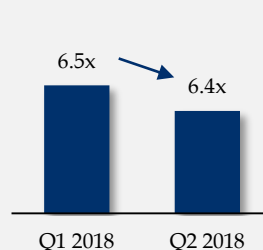
### Unencumbered Assets<sup>(4)</sup>

\$7.5bn  
54% of total equity value

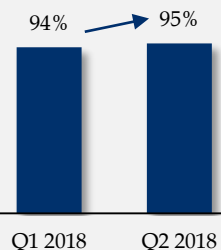
### Total Hedge Portfolio

\$83.1bn  
Includes \$64bn of swaps, \$3bn of swaptions and \$16bn of futures

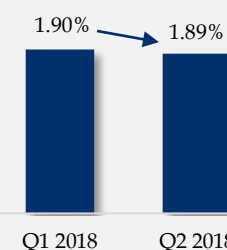
### Economic Leverage



### Hedge Ratio<sup>(5)</sup>



### Average Cost of Funds<sup>(6)</sup>



Source: Company filings. Financial data as of June 30, 2018, unless otherwise noted. \* Represents a non-GAAP financial measure; see Appendix.

1. Based on annualized Q2 2018 dividend and a closing price of \$10.29 on June 29, 2018.

2. Agency assets include TBA purchase contracts (market value) and MSRs. Residential Credit and ACREG assets include only the economic interest of consolidated VIEs.

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

4. "Unencumbered assets" are representative of Annaly's excess liquidity and are defined as assets that haven't been pledged or securitized (including cash & cash equivalents, Agency MBS, CRT, Non-Agency MBS, Residential mortgage loans, MSRs, CRE debt and preferred equity and corporate debt).

5. Measures total notional balances of interest rate swaps, interest rate swaptions and futures relative to repurchase agreements, other secured financing and TBA notional outstanding; excludes MSRs and the effects of term financing, both of which serve to reduce interest rate risk. Additionally, the hedge ratio does not take into consideration differences in duration between assets and liabilities.

6. Includes GAAP interest expense and the net interest component of interest rate swaps.

# Annaly's Acquisition of MTGE Investment Corp.

# ANNALY<sup>®</sup>

*\$900 million Acquisition of*



*May 2, 2018*

*Represents Annaly's 3<sup>rd</sup> acquisition since 2013 for a total of \$3.3bn<sup>(1)</sup>*

*Further solidifies Annaly as a leading diversified capital manager with over \$14bn of capital pro forma for the transaction*

## Transaction Overview

- On May 2, 2018, Annaly Capital Management Inc. and MTGE Investment Corp. ("MTGE") announced that they entered into a definitive merger agreement
- MTGE shareholders are expected to receive total consideration estimated at \$19.65 per share<sup>(2)</sup>
  - MTGE shareholders to have a cash / stock election with an aggregate transaction consideration that consists of 50% Annaly shares and 50% cash<sup>(2)</sup>
  - Consideration represents a ~12% premium to MTGE's 60-day VWAP prior to transaction announcement
- Closing of the transaction is currently expected in Q3 2018

## Key Transaction Highlights

- ✓ Mutually beneficial to shareholders of both companies
- ✓ Enhances scale and diversification of Annaly's investment platform
- ✓ Accretive to Annaly's core earnings<sup>(3)</sup> per share and aligns with Annaly's current risk profile and capital allocation strategy
- ✓ Provides immediate and tangible cost efficiencies to shareholders
- ✓ Reinforces Annaly's stature as a market leader and industry consolidator
- ✓ Leverages Annaly's best-in-class operating platform

Note: Market data and economics as of April 30, 2018, the date which the transaction was priced.

1. Includes Annaly's \$872mm acquisition of CreXus Investment Corp. (closed May 24, 2013), \$1,498mm acquisition of Hatteras Financial Corp. (closed July 12, 2016) and pending \$900mm acquisition of MTGE Investment Corp. (announced May 2, 2018).

2. Based on valuation at signing of the merger agreement on May 2, 2018.

3. Core earnings is a non-GAAP financial measure and excludes PAA.

# Investment Highlights

# Annaly Advantages

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

## Size & Scale

~**23x** the market capitalization of the median mREIT<sup>(1)(2)</sup>

## Efficiency of the Model

Annaly operates at significantly lower expense levels than other yield sectors; **2x** more efficient than mREIT average<sup>(1)</sup>

## Diversification

**37** available investment options is nearly **3x** more than Annaly had in 2013<sup>(3)</sup> and over **4x** more than the current mREIT average<sup>(1)(2)</sup>

## Liquidity & Financing

Annaly utilizes a multitude of funding sources and has over **\$7.5bn** of unencumbered assets<sup>(4)</sup>

## Disciplined Consolidator

Three transformational acquisitions since 2013, with ***combined deal value of ~\$3.3bn***<sup>(5)</sup>

## Enhanced Corporate Governance

**2** new Independent Directors added to the Board in 2018 and **4** new Independent Directors added over the past 5 years

## Performance

Annaly's total return of **77%** since diversification strategy began<sup>(3)</sup> is **16%** and **19%** higher than the S&P 500 and mREIT sector<sup>(1)</sup>, respectively

Source: Bloomberg, SNL Financial and Company filings. Note: Market data as of July 30, 2018. Financial data as of June 30, 2018.

1. Representative of the BBREMTG Index.

2. Pro forma for the pending acquisition of MTGE by Annaly (announced on May 2, 2018) and the completed acquisition of CYS by Two Harbors (closed on July 31, 2018).

3. Data shown since December 31, 2013, which marks the beginning of Annaly's diversification efforts, through June 30, 2018 or most recent period available.

4. "Unencumbered assets" are representative of Annaly's excess liquidity and are defined as assets that have not been pledged or securitized (including cash and cash equivalents, Agency MBS, CRT, Non-Agency MBS, Residential mortgage loans, MSR, CRE debt and preferred equity and corporate debt).

5. Includes Annaly's \$872mm acquisition of CreXus Investment Corp. (closed May 24, 2013), \$1,498mm acquisition of Hatteras Financial Corp. (closed July 12, 2016) and pending \$900mm acquisition of MTGE Investment Corp. (announced May 2, 2018).



# Annaly Advantages | Scale, Efficiency and Diversification

Annaly continues to grow and further establish itself as a market leader while operating more efficiently and providing more investment options than any other mREIT peer

## Scale<sup>(1)</sup>

~**23x** the market cap of the median mREIT peer

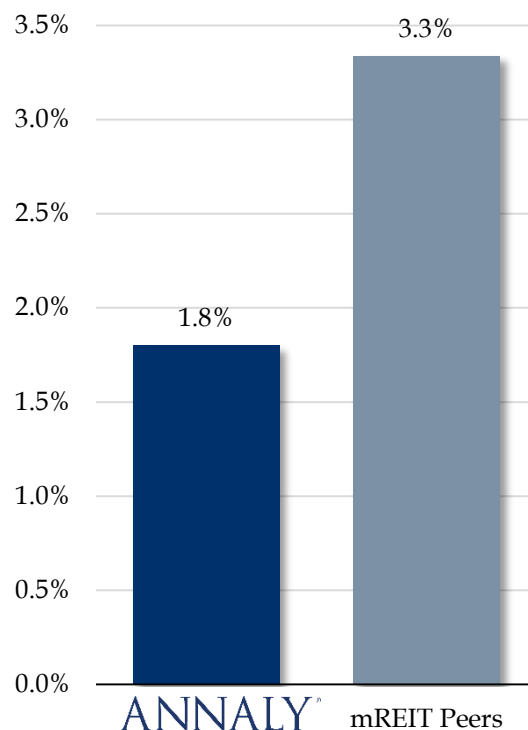
Market Cap (\$bn)



## Efficiency<sup>(2)</sup>

**2x** more efficient than mREIT peers

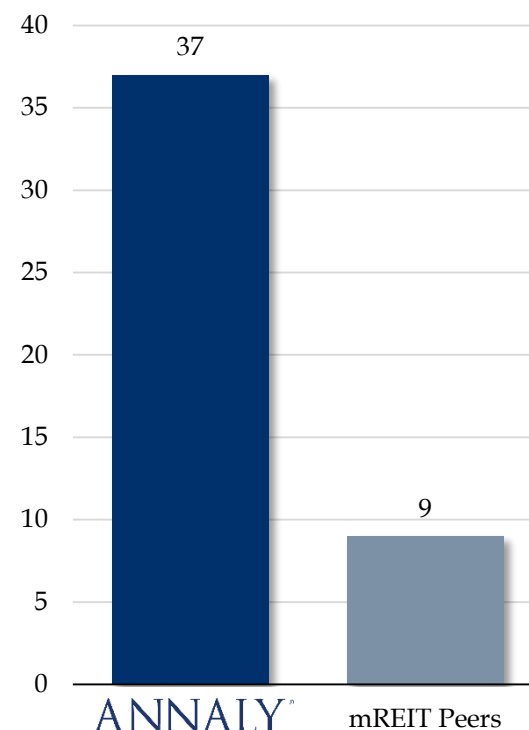
OpEx as % of Average Equity



## Diversification<sup>(1)(3)</sup>

Over **4x** more investment options when compared to the mREIT average

(# of investment options)



Source: Bloomberg, Company filings.

Note: Market data as of July 30, 2018. Financial data as of June 30, 2018 unless otherwise noted. mREIT peers represent the BBREMTG Index.

1. Pro forma for the pending acquisition of MTGE by Annaly (announced on May 2, 2018) and the completed acquisition of CYS by Two Harbors (closed on July 31, 2018).

2. Represents Annaly's average operating expense as a percentage of average equity compared to the BBREMTG Index as of March 31, 2018 annualized. Operating expense is defined as: (i) for internally-managed peers, the sum of compensation and benefits, general and administrative expenses ("G&A") and other operating expenses, and (ii) for externally-managed peers, the sum of net management fees, compensation and benefits (if any), G&A and other operating expenses.

3. Based on publicly available information in mREIT peers' most recent quarterly filings.

# Annaly Advantages | Liquidity and Financing Optimization

During Q2 2018, Annaly continued to enhance funding capabilities and drive capital efficiency

## Repo / Secured Financing

### Deep Access & Increased Counterparties

- ✓ Fixed-Rate term funding
- ✓ Arcola (formerly known as “RCap”) – Proprietary in-house broker dealer provides beneficial access to FICC market<sup>(1)</sup>

Q2 2018

- ✓ Continued to add direct repo relationships to diversify our FICC exposure
- ✓ Reduced certain secured facilities funding costs

## Whole Loan Financing

### Funding Advantage & Diversification

- ✓ Significant funding advantage through FHLB financing<sup>(2)</sup>

- ✓ 1 of 6 mREITs with access to FHLB funding<sup>(2)</sup>

Q2 2018

- ✓ Commenced structuring on 2<sup>nd</sup> securitization which subsequently closed in Q3 2018

Q1 2018

- ✓ Achieved diversification and market-based savings through debut securitization

## Preferred & Common Capital

### Capital Optimization

Q2 2018

- ✓ Agreed to fund acquisition of MTGE with cash on hand, a result of prior prudent capital raises and strong repo balances

Q1 2018

- ✓ Priced preferred equity offering with record low coupon of 6.50%<sup>(3)</sup> and, coupled with redemptions of higher coupon preferred issues, reduced cost of capital by 27bps

## Hedging

### Opportunistic Repositioning

Q2 2018

- ✓ Maintained higher hedge ratio – currently at 95% (vs. 94% as of Q1 2018)
- ✓ Swaps portfolio remains in a net receive position<sup>(4)</sup>

Q1 2018

- ✓ Reallocated Eurodollar hedges into front-end swaps
- ✓ Additional swaps were added during Q1 2018

Source: Company filings.

1. FICC defined as Fixed Income Clearing Corporation.

2. Refers to FHLB membership ending February 2021.

3. Within non-rated preferred equity market. Inclusive of all U.S. domiciled non-rated preferred equity offering.

4. Net receive position refers to the difference between weighted average pay rate on swaps and weighted average receive rate on swaps whereby the receive rate is greater than the pay rate.

# Annaly Advantages | Proven Track Record as a Disciplined Consolidator

Annaly is an industry leading acquirer

ANNALY® *Acquires*

**CREXUS**  
Investment Corp.

 **HATTERAS**  
FINANCIAL

 **MTGE**  
INVESTMENT CORP.

Announcement Date

1/31/2013

4/11/2016

5/2/2018

Size<sup>(1)</sup>

\$872mm

\$1,498mm

\$900mm

## Highlights

Increased Diversification



Accretive to Earnings<sup>(2)</sup>



Improved Operating  
Efficiency and Scale



Enhanced Investment  
Opportunities



Demonstrated Ability To  
Successfully Execute



## Annaly's Proven Value Proposition

Differentiated Scale  
and Liquidity

Diversified Capital  
Allocation

Compelling ROEs with  
Moderate Leverage

Proven Capabilities Across  
Asset Classes

Source: Company filings.

1. Represents total transaction value to target's public shareholders.

2. Refers to core earnings which is a non-GAAP financial measure and excludes PAA.

# Annaly Advantages | Human Capital, Governance and Engagement

Annaly strategically manages all aspects of the business to position the Company to achieve sustainable, long-term performance and value creation

## Human Capital

- ✓ One of Annaly's greatest assets and differentiators is its **people**, dedicated to generating long-term return for shareholders
- ✓ **96%** of Annaly employees feel Annaly is committed to exceeding shareholder expectations<sup>(1)</sup>
- ✓ Dedicated **support staff of 90+ professionals** provides best-in-class risk management, technology, legal, finance and business development functions
- ✓ **125+ new hires** since 2014

## Ownership Culture

- ✓ Annaly's management team and senior-level employees are all Annaly shareholders – **no senior member of the management team has ever sold stock**
- ✓ **100%** of employees subject to Stock Ownership Guidelines have either met, or within the applicable timeframe are expected to meet, the guidelines
- ✓ In 2017, Annaly's CEO **voluntarily committed to increase** stock ownership to **\$15mm by 2020**; other members of senior management also voluntarily increased future ownership
- ✓ 100% of NEO-owned stock has been **purchased in the open market** rather than granted by the Company

## Governance and Social Responsibility

- ✓ Recent enhancements include
  - ✓ **2 new** Independent Board members in 2018
  - ✓ Increased percentage of **women on Board to 36%**
  - ✓ Refreshment of certain Committee memberships and chairmanships and **added a new Public Responsibility Committee**
  - ✓ Annual Board, Committee and individual Director **Self-Evaluations**
- ✓ Recognized in the **2018 Bloomberg Gender Equality Index**
  - ✓ Reflects Annaly's commitment to creating a gender equal workplace

## Shareholder Engagement

- ✓ Annaly takes pride in its extensive investor outreach efforts and is committed to transparency and continued engagement
  - ✓ Outreach to **92% of Top 50 institutional investors** over the past 12 months
  - ✓ Annaly **enhanced disclosure** in its 2018 proxy statement regarding operating efficiencies of the diversified model, the parameters and makeup of the Manager's executive pay program and corporate governance practices
- ✓ Annaly's institutional ownership has **increased by over 30%** with over 300 new shareholders since 2013<sup>(2)</sup>

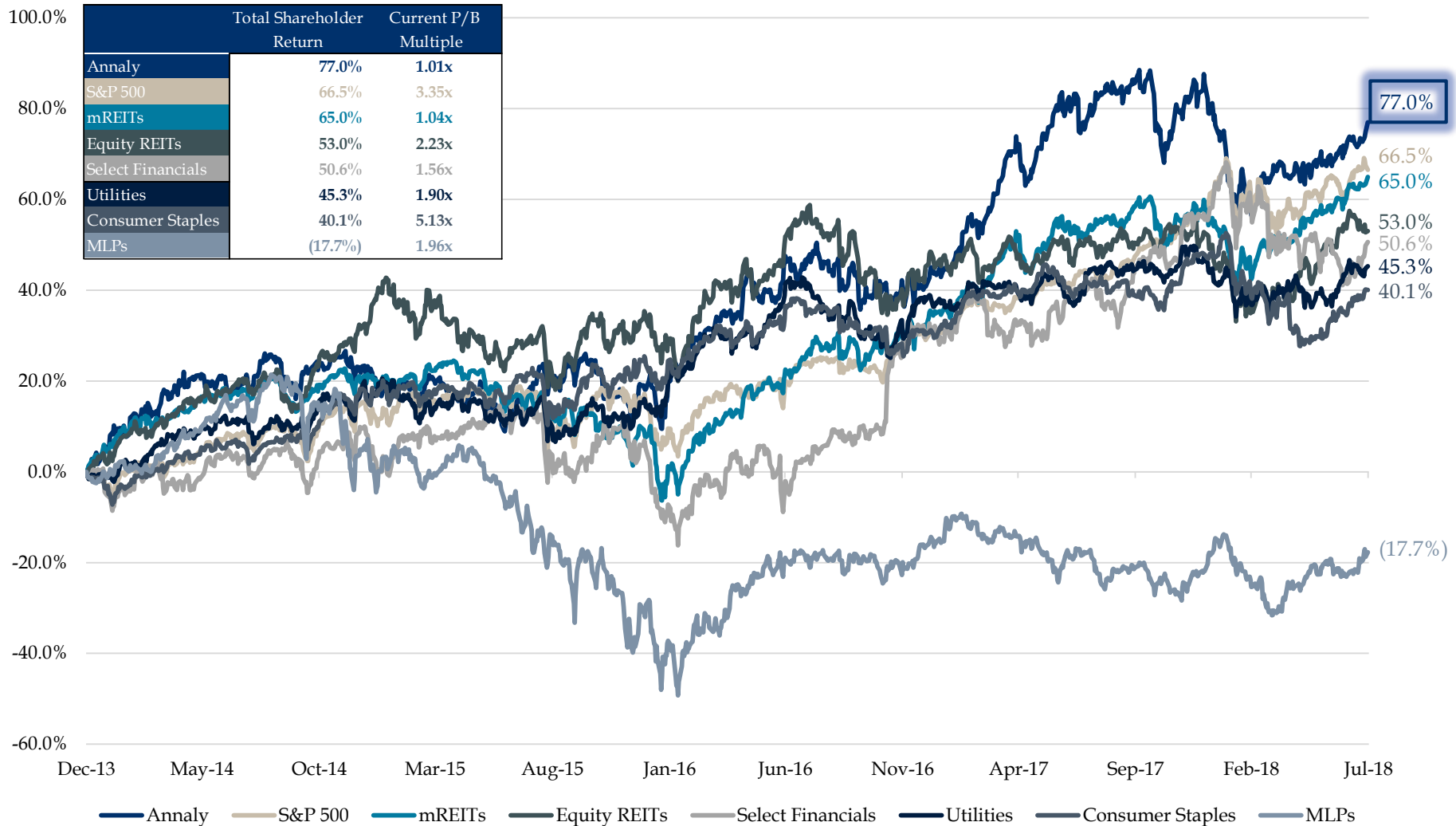
Source: Company filings as of June 30, 2018, unless otherwise noted.

1. Company data based on a September 2017 internal survey.

2. Ipreo shareholder data as of March 31, 2018.

# Annaly Advantages | Outperformance vs. the Market & Other Yield Sectors

Annaly has outperformed other yield options since its diversification strategy began in 2014



Source: Bloomberg.

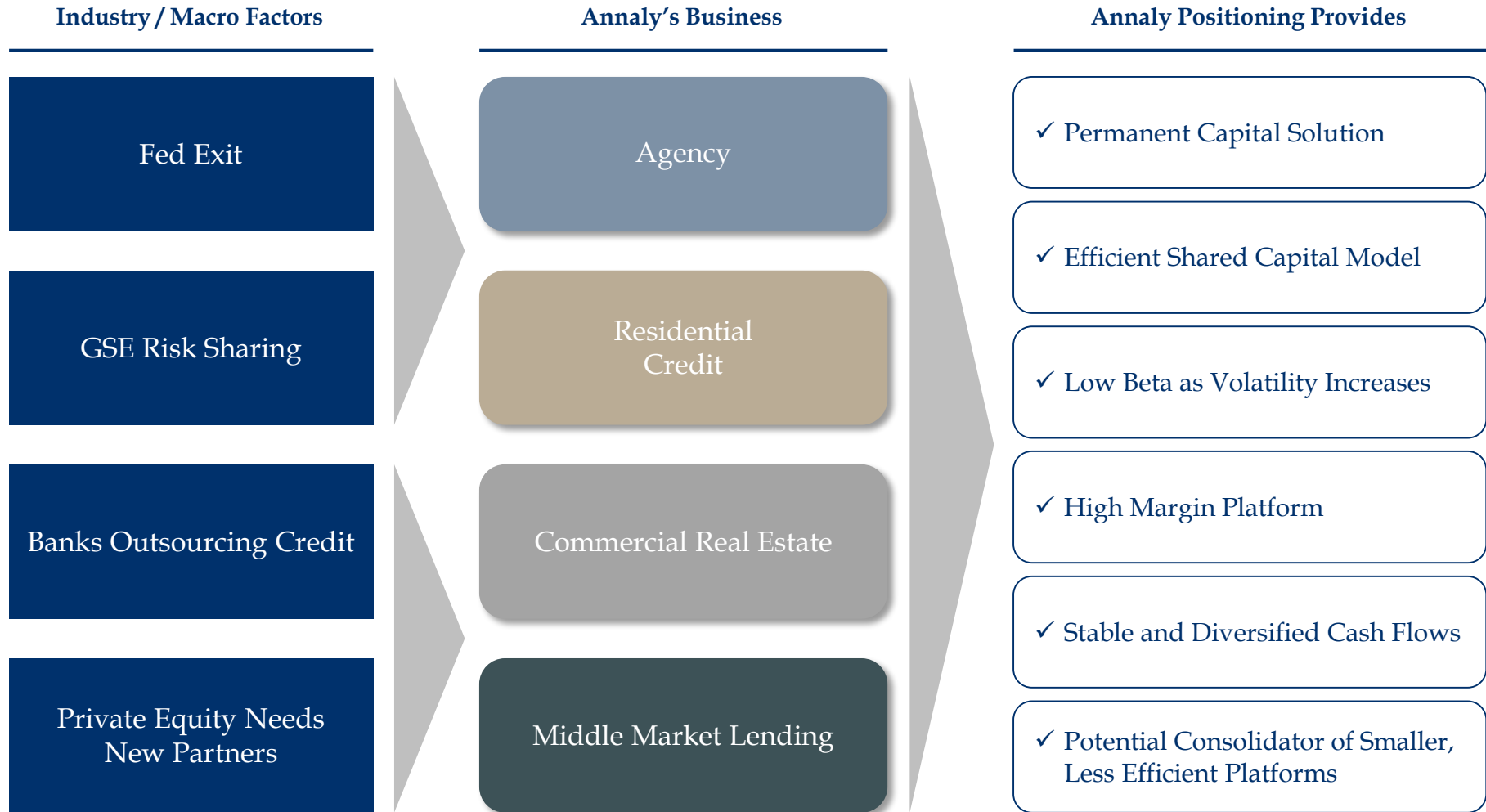
Note: Market data shown from December 31, 2013 to July 30, 2018.

Note: S&P 500 represents the S&P 500 Index. mREITs represent the BBREMTG Index. Equity REITs represent the RMZ Index. Utilities represent the Russell 3000 Utilities Index. Select Financials represents an average of companies in the S5FINL Index with dividend yields greater than 50 basis points higher than the S&P 500 dividend yield as of July 30, 2018. Consumer Staples represent the S5CONS Index. MLPs represent the Alerian MLP Index.



# Annaly's Opportunity

Annaly is positioned to capitalize on industry and macro evolution



# Macro Outlook & Positioning

# Annaly Outlook | Interest Rates and Macro Landscape

Current macroeconomic environment supports mortgage basis over interest rate risk

## Annaly's Views on Macroeconomic Environment

- U.S. expansion remains robust and near-term recession risks remain low
- Federal Reserve maintains gradual hiking cycle, with few signals of altered path
- Federal Reserve balance sheet runoff continues while other central banks are expected to slow purchases in coming months
- Favorable global environment has faded relative to 2017 as higher U.S. Dollar and Fed rate hikes have begun to pressure Emerging Markets while European growth appears to have moderated
- Political uncertainties have risen in recent months amid rise of populism and trade disputes

### Interest Rates

### Mortgage Basis

#### Annaly Positioning

- Given flattening of yield curve, interest rate hedges are relatively inexpensive
- Attractive to remain well-hedged in light of macroeconomic environment and the potential for bouts of volatility

- Maintain large, liquid MBS position with attractive carry, expect technical factors to improve in coming months
- Reallocated portion of TBA contracts to specified pools over the past four quarters

#### Annaly Outlook

- Considerable flattening may persist over the near term as short-term rates have risen while longer term rates have remained range bound
- In spite of relative attractiveness of front end rates, interest rate hedges remain spread across the yield curve given technical considerations

- MBS performance held up well in Q2 2018 despite supply overhang from Fed portfolio runoff
- Remain constructive as economic cycle maturing is unlikely to adversely impact MBS

# Defensive Portfolios are Well-Positioned for the Current Macro Environment

Given the greater uncertainty in the broader global landscape, investors have been increasingly seeking stability

## Macro Drivers

Global Trade Tariffs

Geopolitical Uncertainty

Domestic and Global Divergence

Approaching Later Stages of  
Current Hiking Cycle<sup>(1)</sup>

## Increased Attractiveness of Defensive Stocks

✓ Defensive stocks should provide greater stability – in terms of performance and dividends – throughout various states of the market

✓ Traditional defensive stocks include:

- ✓ Telecom
- ✓ Utilities
- ✓ Consumer staples
- ✓ Healthcare

✓ mREITs often outperform traditional defensive stocks during market corrections

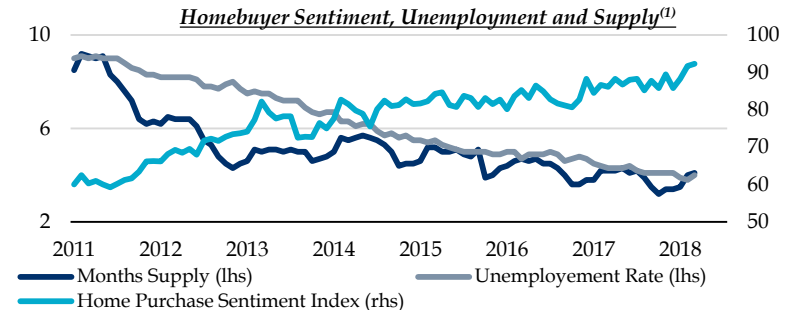
Source: Bloomberg and Company filings. Market data as of July 30, 2018.

1. Assumes the current cycle began in December 2015.

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

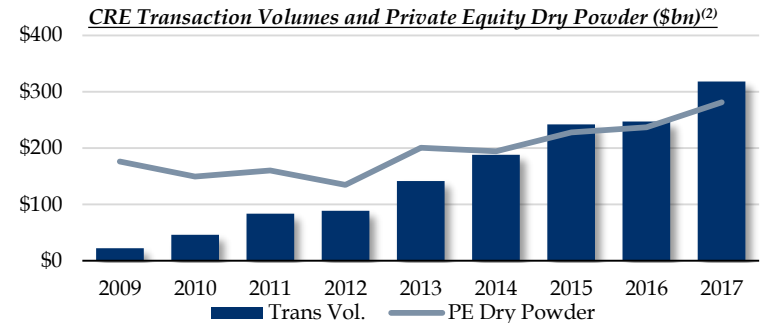
## Residential Credit

- Homebuyer sentiment continues to rise as supply and unemployment remain near historical lows
- Continued strong housing fundamentals are supportive of residential credit performance



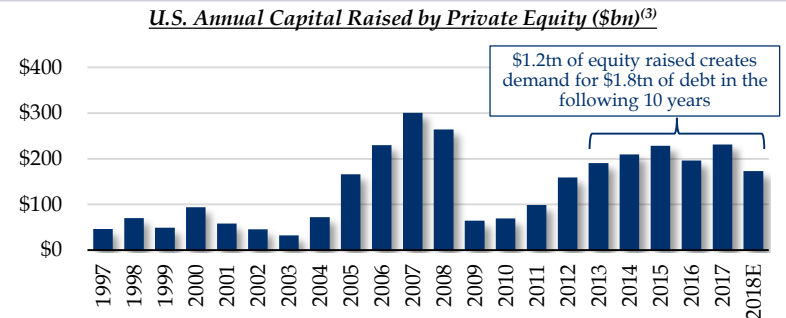
## Commercial Real Estate

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



## Middle Market Lending

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



1. Source: Bloomberg and Fannie Mae.

2. Source: Real Capital Analytics and Preqin Ltd. CRE transactions represent U.S. CRE transactions. Private equity dry powder reflects investable capital of U.S. CRE-focused private equity funds.

3. Source: Thomson Reuters. Capital raised includes all U.S. buyouts and mezzanine by private equity sponsors per Thomson Reuters as of June 30, 2018. Assumes that capital is deployed evenly over a five year period and equity is 41% of the capital structure based on the average of middle market and broadly syndicated loan equity contribution for 1H 2018 according to the Thomson Reuters Middle Market Q2 2018 Review.

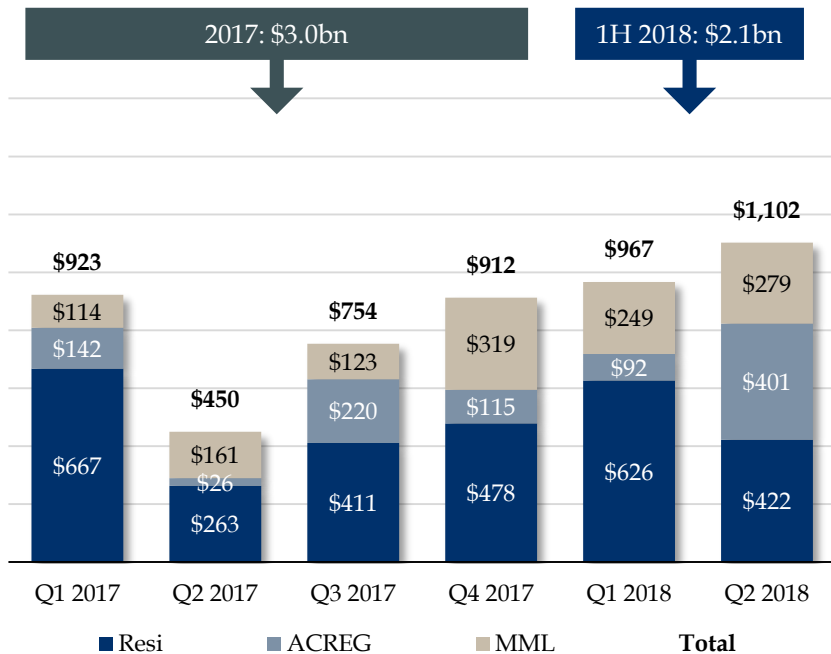


# Recent Allocation to Other Asset Classes

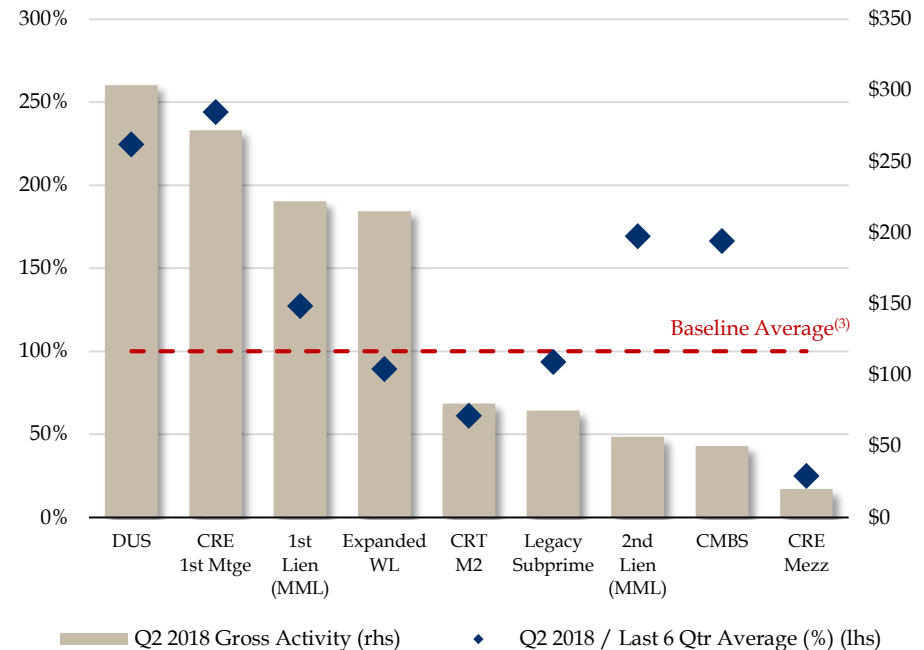
While Agency MBS returns remain attractive, Annaly continues to opportunistically rotate into other asset classes given our growing pipelines and sound fundamentals<sup>(1)</sup>

- Although credit spreads remain tight, Annaly continues to evaluate select opportunities for attractive risk-adjusted returns through our unique origination channels
- Annaly grew originations in Q2 2018 without sacrificing quality by specifically focusing on strong partnerships in favorable markets for Commercial Real Estate and Residential Whole Loans and lower borrower leverage in middle market lending
- Activity across Commercial Real Estate has increased due to improving financing terms, higher all-in yields and expanded coverage across large financial institutions
- After originating and acquiring over \$1.1bn of assets in Q2 2018 (excluding the pending acquisition of MTGE), Annaly's credit businesses represent 28% of dedicated capital, up from 20% at Q4 2016

Gross Credit Investment Activity by Business (\$mm)<sup>(2)</sup>



Investment Trends by Product (\$mm)<sup>(1)</sup>



Source: Company filings. Note: Financial data of June 30, 2018.

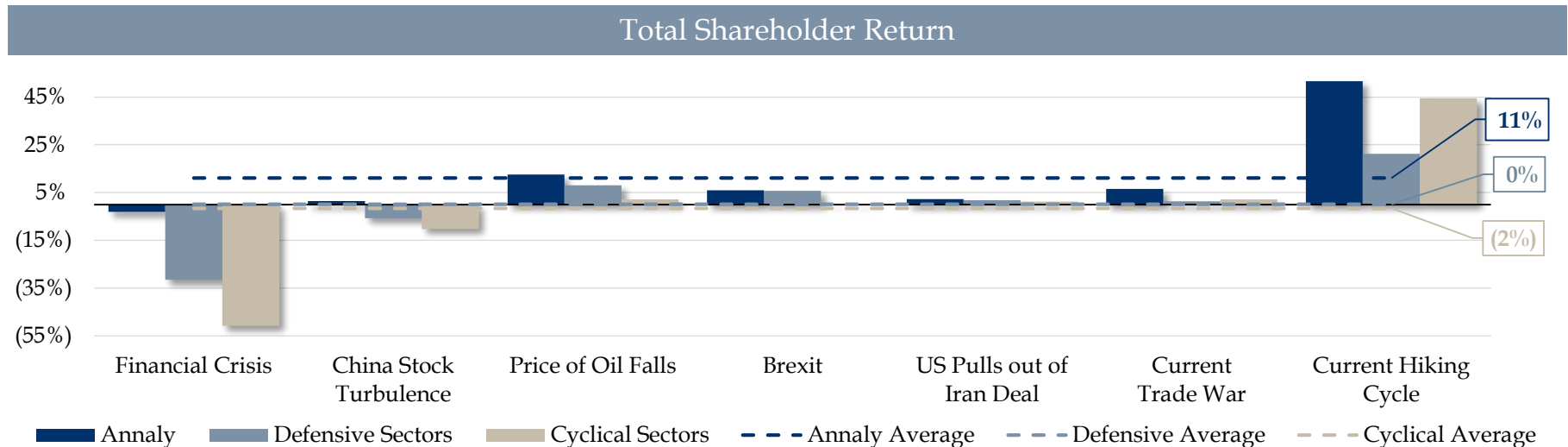
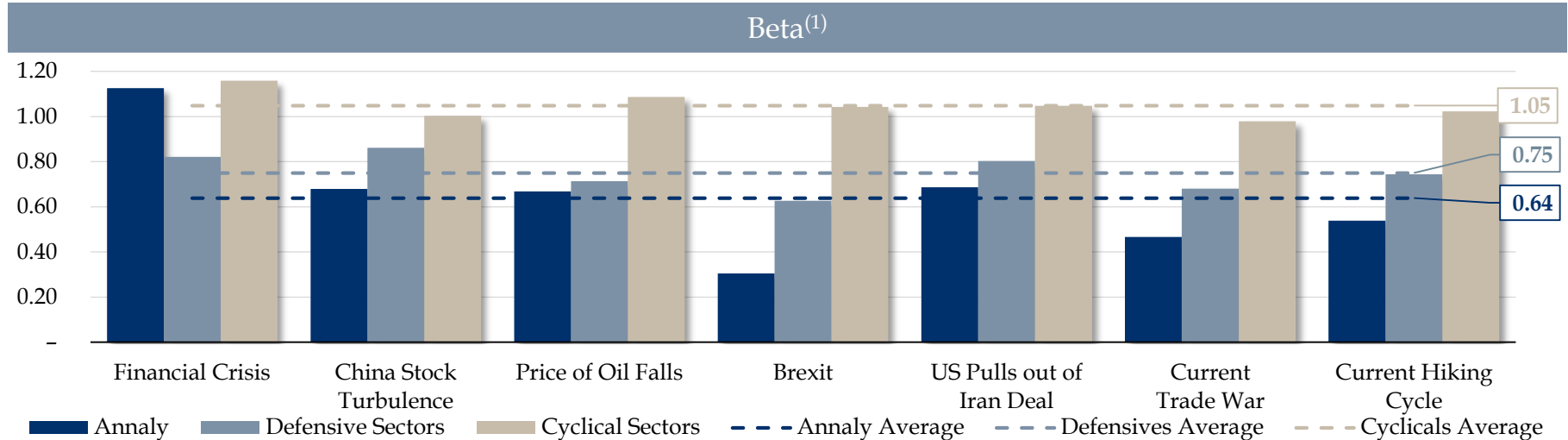
1. Other asset classes includes DUS, CRE 1<sup>st</sup> mortgage, 1<sup>st</sup> lien corporate loans, expanded whole loans, CRT, legacy subprime residential credit investments, 2<sup>nd</sup> lien corporate loans, CMBS and CRE mezzanine investments.

2. Includes credit and CRE equity investments. Does not include DUS investments.

3. Represents the level at which the Q2 2018 investment activity for a respective asset class surpasses its last 6 quarter average.

# Low Beta and Outperformance During Market Turmoil

During periods of market turmoil, Annaly's beta has been 15% lower than defensive sectors and 39% lower than cyclical sectors while outperforming the S&P 500 by 12% on average



Source: Bloomberg.

Note: "Defensive Sectors" include the following S&P 500 subsectors: Healthcare, Utilities, Consumer Staples and Telecommunications. "Cyclical Sectors" include the following S&P 500 subsectors: Consumer Discretionary, Financials, Materials, Energy, Information Technology, Real Estate, Industrials.

Note: Analysis reflects data for the following trading ranges: "Financial Crisis" (December 1, 2007 - March 31, 2009), "China Stock Turbulence" (June 1, 2015 - September 30, 2015), "Price of Oil Falls" (January 1, 2016 - March 31, 2016), "Brexit" (June 1, 2016 - June 30, 2016), "U.S. Pulls Out of Iran Deal" (May 8, 2018 - May 31, 2018), "Current Trade War" (March 9, 2018 - July 30, 2018), "Current Hiking Cycle" (December 16, 2015 - July 30, 2018).

1. Beta calculated on a daily basis using Annaly's common stock closing price and index closing levels during the respective time periods.

# Continued Stability in Net Interest Margins

Despite the continued yield curve flattening, Annaly has produced an attractive and stable net interest margin ("NIM") ex-PAA<sup>(1)</sup>

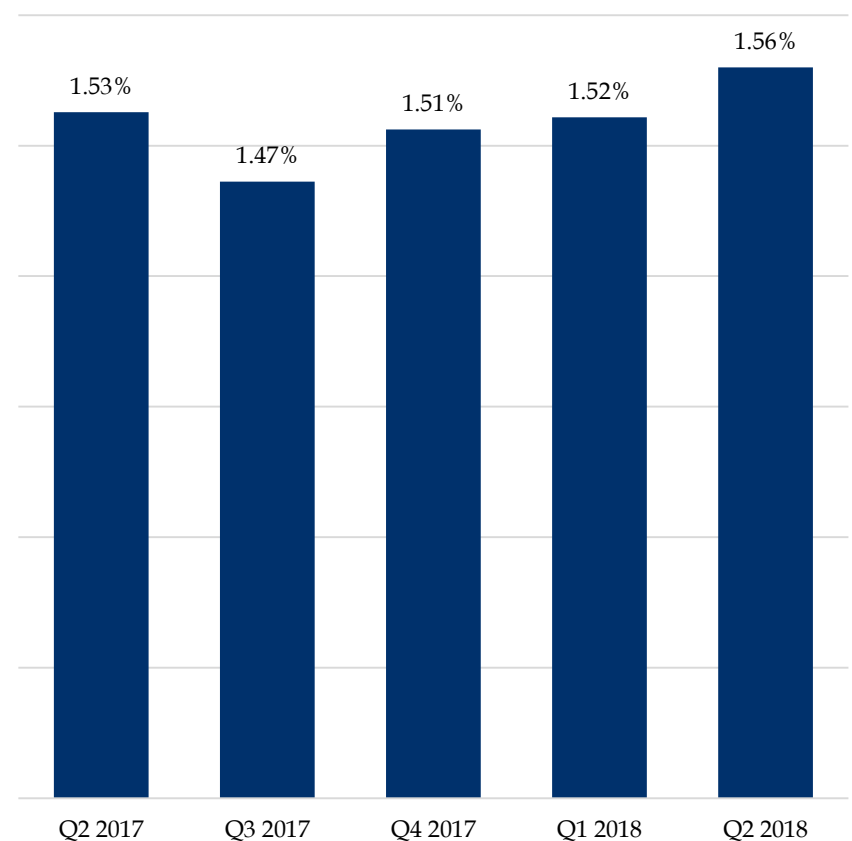
*Yield curve continued to flatten in Q2 2018 as uncertainty weighed on the long-end, while the front-end continued to rise*

*Annaly has continued to provide an attractive, stable NIM over the last year and throughout different yield environments*

Treasury Yield Curve (%)



Annaly NIM ex-PAA (%)<sup>(1)</sup>



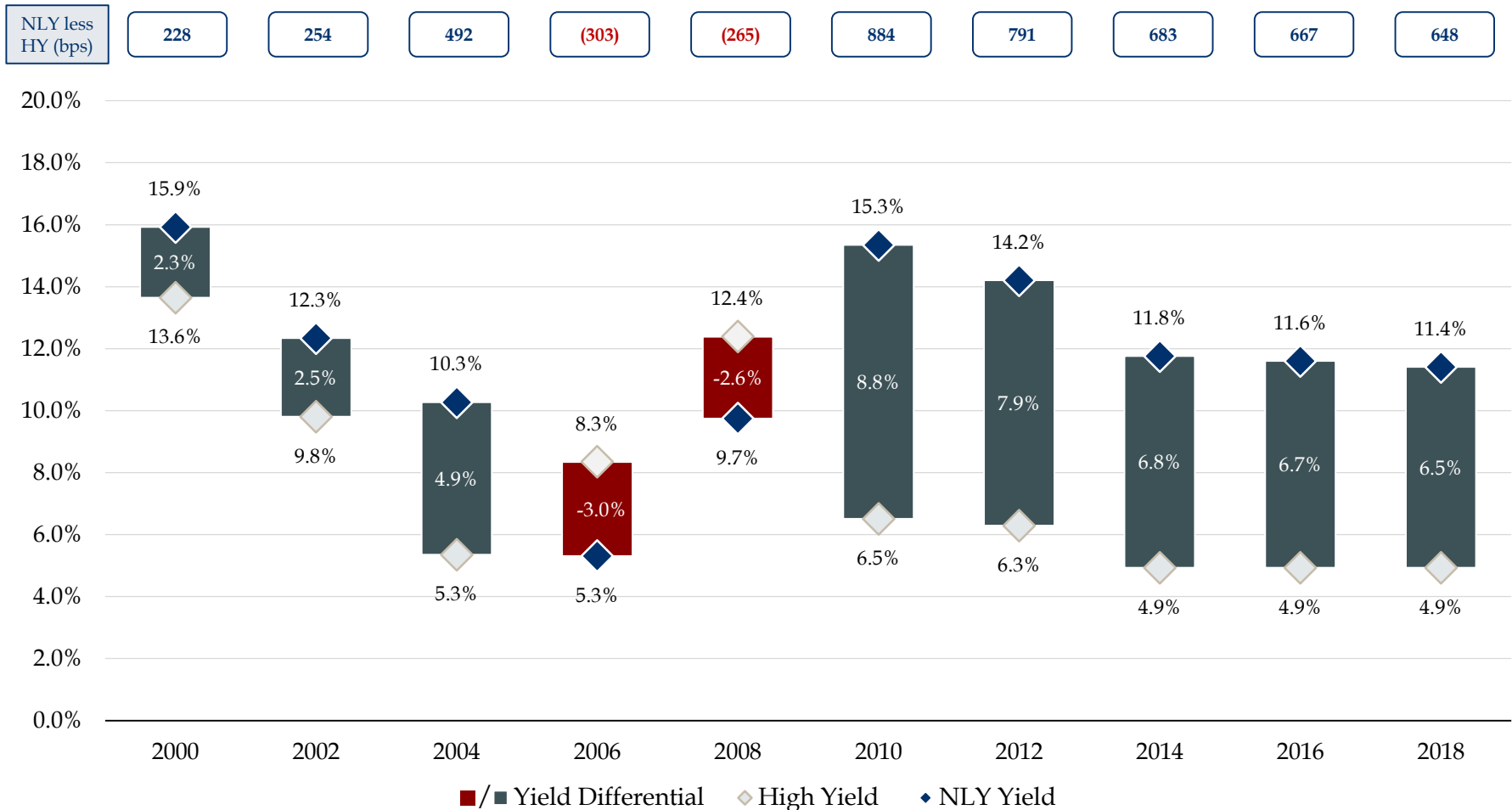
Source: Bloomberg and Company filings. Market data as of July 30, 2018. Financial data as of June 30, 2018.

1. Net interest margin represents the sum of the Company's interest income plus TBA dollar roll income less interest expense and the net interests component of interest rate swaps divided by the sum of average interest earning assets plus average TBA contract balances. Net interest margin (excluding PAA) excludes the 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 the Annaly's Agency MBS position. Represents a non-GAAP financial measure; see Appendix.

# Annaly's Outsized Yield

Stable net interest margins have enabled Annaly to deliver more attractive yield on a relative basis than it has historically, particularly relative to high yield assets

Yield Differential: Annaly Dividend Yield - High Yield Index



Source: Bloomberg and Company filings.

Note: Market data as of July 30, 2018. High Yield Index represents the Bloomberg Barclays U.S. Corporate High Yield Total Return Index. Yield differential reflects the difference between the average annual yield for Annaly and the High Yield Index for each respective period. Yield differential may not tie due to rounding.

# Business Update

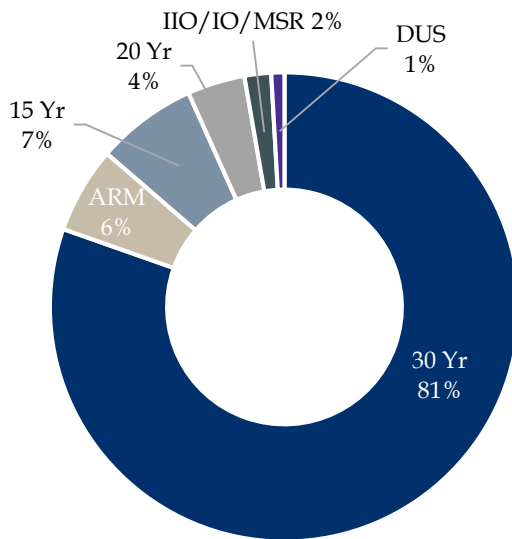


# Agency | Portfolio Summary

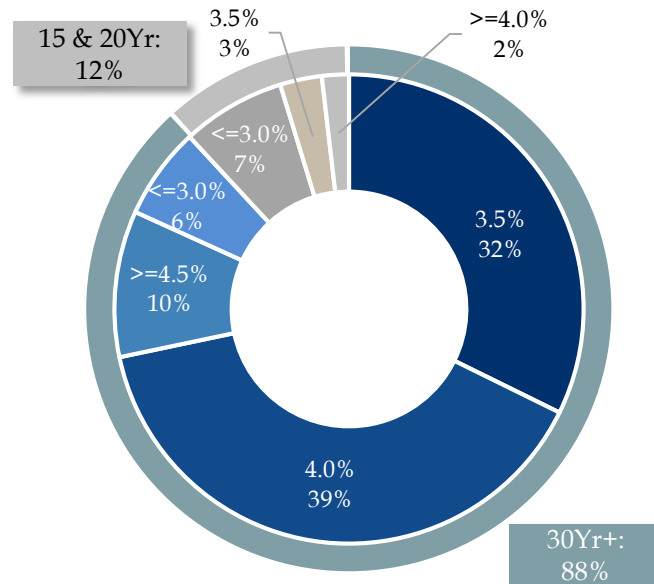
- Agency Portfolio: \$95.4bn in assets at the end of Q2 2018, a decrease of ~3% from Q1 2018<sup>(1)</sup>
- Modest portfolio decline was driven by small reduction of TBA position and net sales of pools with less attractive carry
- Agency MBS performed well in light of the continued rate selloff, as investors supported the sector
  - While Agency MBS continues to face negative technicals from Fed runoff and limited bank demand, it looks fundamentally attractive amid low volatility, low refinancing activity and sound discount speeds
- ~78% of the portfolio was positioned in securities with prepayment protection at the end of Q2 2018

Total Dedicated Capital: \$9.3 billion<sup>(1)</sup>

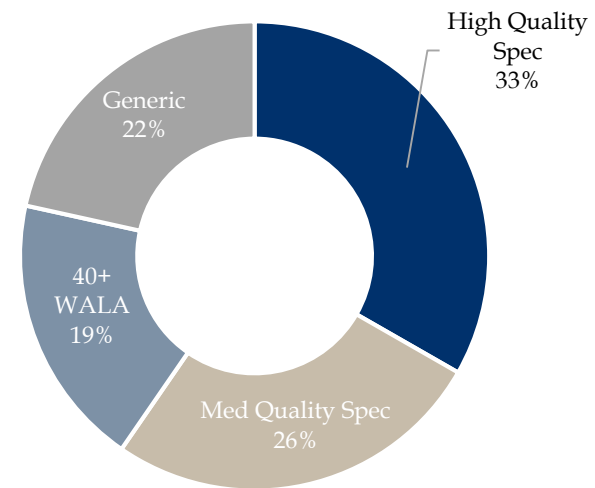
Asset Type<sup>(1)</sup>



Pass Through Coupon Type



Portfolio Quality<sup>(2)</sup>



Note: Data as of June 30, 2018. Percentages based on fair market value and may not sum to 100% due to rounding.

1. Includes TBA purchase contracts and MSR.

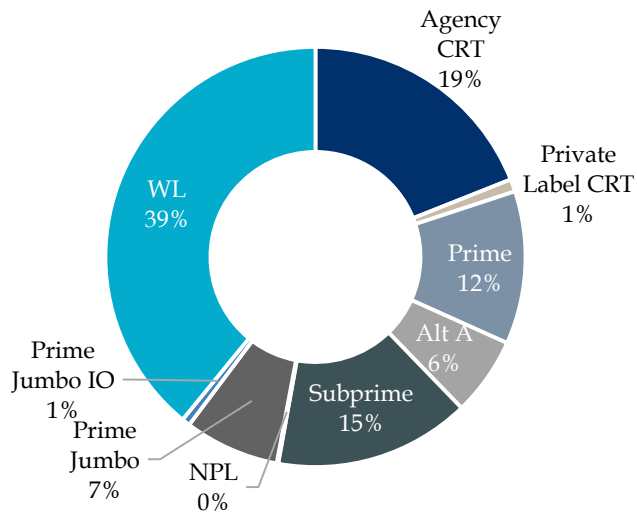
2. "High Quality Spec" protection is defined as pools backed by original loan balances of up to \$125k, highest LTV pools (CR>125% LTV), geographic concentrations (NY/PR). "Med Quality Spec" includes \$200k loan balance, \$175k loan balance, \$150k loan balance, high LTV pools (CQ 105-125% LTV). "40+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

# Residential Credit | Portfolio Summary

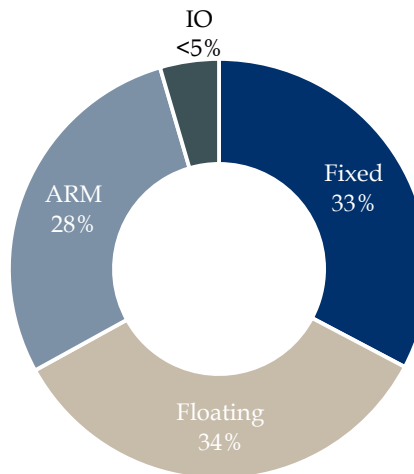
- Residential Credit Portfolio: \$2.9bn in assets at the end of Q2 2018, an increase of ~1% from Q1 2018
  - Portfolio growth has been concentrated in whole loans
  - FHLB financing, as well as successful securitization execution, supported continued growth
- While Residential Credit performed well during the first half of the year, there was marginal softening at the top of the capital stack near quarter end, likely attributable to investor asset reallocation coupled with large supply
- Capitalizing on elevated spread volatility through opportunistic investments in the Credit Risk Transfer sector

Total Dedicated Capital: \$1.3 billion

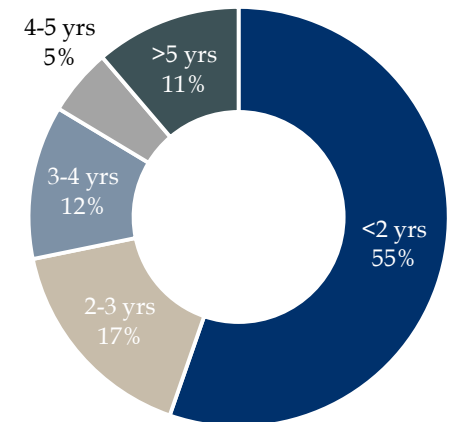
Sector Type<sup>(1)(2)</sup>



Coupon Type<sup>(1)</sup>



Effective Duration<sup>(1)</sup>



Note: Data as of June 30, 2018. Portfolio statistics and percentages are based on fair market value and reflect economic interest in securitizations. Prime Jumbo and Prime classifications include the economic interest of certain positions that are classified as Residential Mortgage Loans within our Consolidated Financial Statements. Percentages may not sum to 100% due to rounding.

1. Pie charts are shown exclusive of securitized residential mortgage loans of a consolidated VIE.

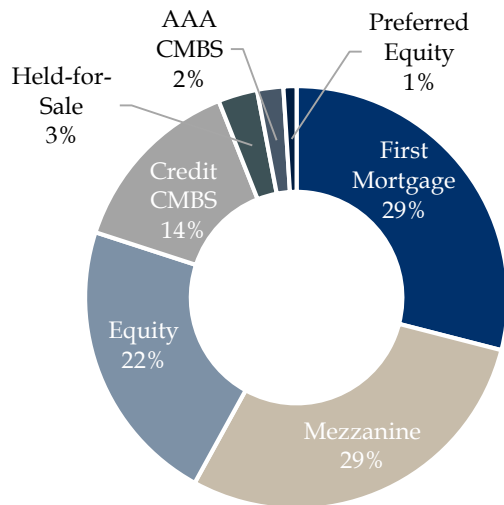
2. Prime classification includes \$13mm of Prime IO.

# Commercial Real Estate | Portfolio Summary

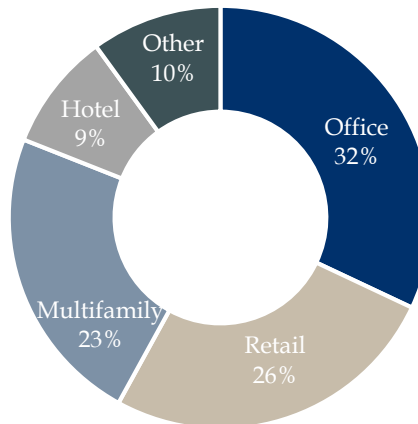
- Commercial Real Estate Portfolio: \$2.3bn in assets at the end of Q2 2018, an increase of ~12% from Q1 2018
- Assets continue to perform as the supply / demand fundamentals in the U.S. commercial real estate market remain favorable
- New investment activity outpaced paydowns during Q2 2018
  - \$418mm of new investments<sup>(1)</sup> with levered yields of ~11%
  - \$145mm of payoffs / paydowns
- Continue to drive portfolio growth through an attractive pipeline despite increasingly competitive credit markets

Total Dedicated Capital: \$1.1 billion

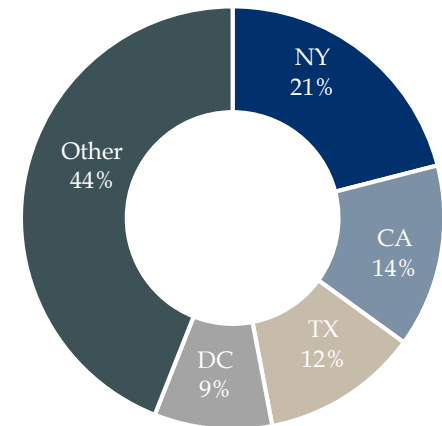
Asset Type<sup>(2)</sup>



Sector Type



Geographic Concentration<sup>(3)</sup>



Note: Data as of June 30, 2018. Portfolio statistics and percentages are based on economic interest, exclude consolidated VIEs associated with B-Piece CMBS, and include conduit CMBS.

1. Includes a 1<sup>st</sup> mortgage loan with a future funding commitment of \$27mm.

2. B-Notes held for investment reflected as mezzanine investments.

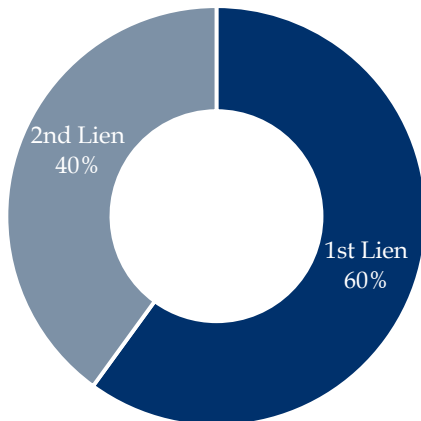
3. Other includes 46 states, none of which represents more than 5% of total portfolio value. The Company looked through to the collateral characteristics of securitizations and equity method investments.

# Middle Market Lending | Portfolio Summary

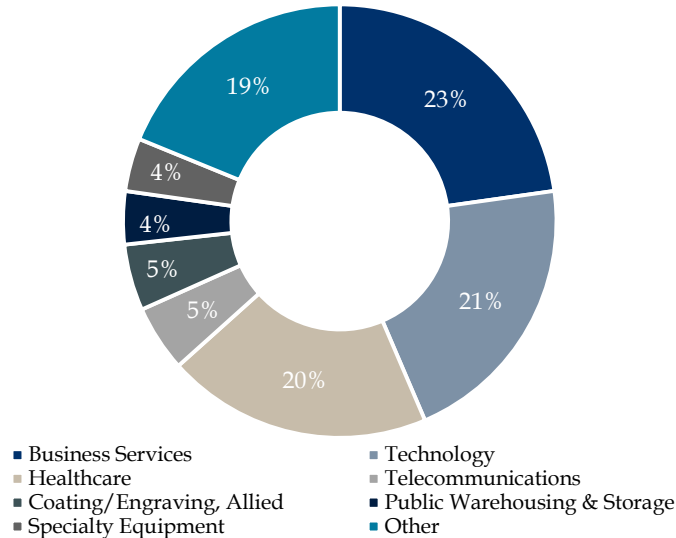
- Middle Market Lending Portfolio: \$1.3bn in assets at the end of Q2 2018, an increase of ~9% from Q1 2018
- Diversified first and second lien portfolio with increased focus on lead arranger opportunities and more concentrated positions
- New investment activity outpaced paydowns during Q2 2018
  - \$279mm of new investments with unlevered yield of ~8%<sup>(1)</sup>
  - \$134mm of paydowns received
- Portfolio of more than 40 borrowers is well diversified across sponsor, industry and borrower

Total Dedicated Capital: \$1.1 billion

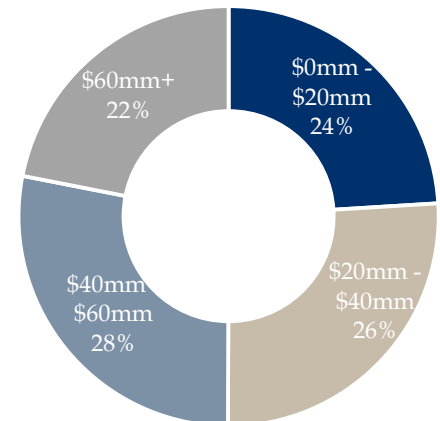
Lien Position



Industry<sup>(2)</sup>



Loan Size<sup>(3)</sup>



Note: Data as of June 30, 2018. Percentages based on amortized cost and may not sum to 100% due to rounding.

1. Inclusive of add-ons and repricings; yield calculated net of syndications.

2. Based on Standard Industrial Classification industry categories.

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

# Performance Highlights and Trends

Unaudited, dollars in thousands except per share amounts

	For the quarters ended				
	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017
GAAP net income (loss) per average common share <sup>(1)</sup>	\$0.49	\$1.12	\$0.62	\$0.31	(\$0.01)
Core earnings (excluding PAA) per average common share* <sup>(1)(2)</sup>	\$0.30	\$0.30	\$0.31	\$0.30	\$0.30
Core earnings per average common share* <sup>(1)(2)</sup>	\$0.30	\$0.41	\$0.30	\$0.26	\$0.23
PAA cost (benefit) per average common share	\$0.00	(\$0.11)	\$0.01	\$0.04	\$0.07
Dividends declared per common share	\$0.30	\$0.30	\$0.30	\$0.30	\$0.30
Book value per common share	\$10.35	\$10.53	\$11.34	\$11.42	\$11.19
Annualized GAAP return (loss) on average equity	17.20%	36.86%	20.58%	10.98%	0.46%
Annualized core return on average equity (excluding PAA)*	11.05%	10.70%	10.67%	10.57%	10.54%
Net interest margin	1.53%	1.94%	1.47%	1.33%	1.23%
Net interest margin (excluding PAA)*	1.56%	1.52%	1.51%	1.47%	1.53%
Agency mortgage-backed securities	\$86,593,058	\$88,579,097	\$90,551,763	\$85,889,131	\$73,963,998
Mortgage servicing rights	599,014	596,378	580,860	570,218	605,653
Residential credit portfolio <sup>(3)</sup>	3,236,738	3,230,970	3,187,380	2,706,092	2,619,564
Commercial real estate investments <sup>(4)</sup>	4,628,946	4,521,681	4,604,388	5,321,786	5,375,251
Corporate debt	1,256,276	1,152,745	1,011,275	856,110	773,957
Total residential and commercial investments	\$96,314,032	\$98,080,871	\$99,935,666	\$95,343,337	\$83,338,423
Leverage, at period-end <sup>(5)</sup>	6.0x	6.1x	5.7x	5.4x	5.6x
Economic leverage, at period-end <sup>(6)</sup>	6.4x	6.5x	6.6x	6.9x	6.4x
Credit portfolio as a percentage of stockholders' equity <sup>(7)</sup>	28%	26%	24%	23%	20%

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

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

2. Core earnings is defined as net income (loss) excluding gains or losses on disposals of investments and termination or maturity of interest rate swaps, unrealized gains or losses on interest rate swaps and instruments measured at fair value through earnings, net gains and losses on other derivatives, impairment losses, net income (loss) attributable to noncontrolling interest, transaction expenses and certain other non-recurring gains or losses, and inclusive of TBA dollar roll income (a component of Net gains (losses) on other derivatives) and realized amortization of MSRs (a component of net unrealized gains (losses) on instruments measured at fair value through earnings). Core earnings (excluding PAA) excludes the premium amortization adjustment representing the cumulative impact on prior periods, but not the current period, of quarter-over-quarter changes in estimated long-term prepayment speeds related to the Company's Agency mortgage-backed securities.

3. Includes non-Agency securities, credit risk transfer securities and residential mortgage loans; includes consolidated VIEs.

4. Includes consolidated VIEs.

5. Debt consists of repurchase agreements, other secured financing, securitized debt, and mortgages payable. Securitized debt and mortgages payable are non-recourse to the Company.

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

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



## **Appendix: Non-GAAP Reconciliations**

# Non-GAAP Reconciliations

## Unaudited, dollars in thousands except per share amounts

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

	For the quarters ended				
	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017
<b><u>GAAP to Core Reconciliation</u></b>					
GAAP net income (loss)	\$595,887	\$1,327,704	\$746,771	\$367,315	\$14,522
Less:					
Realized (gains) losses on termination of interest rate swaps	-	(834)	160,075	-	58
Unrealized (gains) losses on interest rate swaps	(343,475)	(977,285)	(484,447)	(56,854)	177,567
Net (gains) losses on disposal of investments	66,117	(13,468)	(7,895)	11,552	5,516
Net (gains) losses on other derivatives	(34,189)	47,145	(121,334)	(154,208)	14,423
Net unrealized (gains) losses on instruments measured at fair value through earnings	48,376	51,593	12,115	67,492	(16,240)
Transaction expenses <sup>(1)</sup>	-	1,519	-	-	-
Net (income) loss attributable to non-controlling interest	32	96	151	232	102
Plus:					
TBA dollar roll income <sup>(2)</sup>	62,491	88,353	89,479	94,326	81,051
MSR amortization <sup>(3)</sup>	(19,942)	(21,156)	(19,331)	(16,208)	(17,098)
Core earnings*	\$375,297	\$503,667	\$375,584	\$313,647	\$259,901
Less:					
Premium amortization adjustment (PAA) cost (benefit)	7,516	(118,395)	11,367	39,899	72,700
Core Earnings (excluding PAA)*	382,813	385,272	386,951	353,546	332,601
GAAP net income (loss) per average common share <sup>(4)</sup>	\$0.49	\$1.12	\$0.62	\$0.31	(\$0.01)
Core earnings per average common share <sup>(4)*</sup>	\$0.30	\$0.41	\$0.30	\$0.26	\$0.23
Core earnings (excluding PAA) per average common share <sup>(4)*</sup>	\$0.30	\$0.30	\$0.31	\$0.30	\$0.30
Annualized GAAP return (loss) on average equity	17.20%	36.86%	20.58%	10.98%	0.46%
Annualized core return on average equity (excluding PAA)*	11.05%	10.70%	10.67%	10.57%	10.54%

\* Represents a non-GAAP financial measure.

1. Represents costs incurred in connection with a securitization of residential whole loans.

2. Represents a component of Net gains (losses) on other derivatives.

3. 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.

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

# Non-GAAP Reconciliations (cont'd)

Unaudited, dollars in thousands except per share amounts

	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017
For the quarters ended					
<b><u>Premium Amortization Reconciliation</u></b>					
Premium amortization expense	\$202,426	\$95,832	\$203,951	\$220,636	\$251,084
Less:					
PAA cost (benefit)	\$7,516	(\$118,395)	\$11,367	\$39,899	\$72,700
Premium amortization expense (excluding PAA)	\$194,910	\$214,227	\$192,584	\$180,737	\$178,384
<b><u>Interest Income (excluding PAA) Reconciliation</u></b>					
GAAP interest income	\$776,806	\$879,487	\$745,423	\$622,550	\$537,426
PAA cost (benefit)	\$7,516	(\$118,395)	\$11,367	\$39,899	\$72,700
Interest income (excluding PAA)*	\$784,322	\$761,092	\$756,790	\$662,449	\$610,126
<b><u>Economic Interest Expense Reconciliation</u></b>					
GAAP interest expense	\$442,692	\$367,421	\$318,711	\$268,937	\$222,281
Add:					
Net interest component of interest rate swaps <sup>(1)</sup>	(31,475)	48,160	73,957	78,564	84,252
Economic interest expense* <sup>(1)</sup>	\$411,217	\$415,581	\$392,668	\$347,501	\$306,533
<b><u>Economic Net Interest Income (excluding PAA) Reconciliation</u></b>					
Interest income (excluding PAA)	\$784,322	\$761,092	\$756,790	\$662,449	\$610,126
Less:					
Economic interest expense* <sup>(1)</sup>	411,217	415,581	392,668	347,501	306,533
Economic net interest income (excluding PAA)* <sup>(1)</sup>	\$373,105	\$345,511	\$364,122	\$314,948	\$303,593
<b><u>Economic Metrics (excluding PAA)</u></b>					
Average interest earning assets	\$102,193,435	\$101,979,042	\$100,247,589	\$89,253,094	\$83,427,268
Interest income (excluding PAA)*	\$784,322	\$761,092	\$756,790	\$662,449	\$610,126
Average yield on interest earning assets (excluding PAA)*	3.07%	2.99%	3.02%	2.97%	2.93%
Average interest bearing liabilities	\$87,103,807	\$87,376,452	\$85,992,215	\$76,382,315	\$70,486,779
Economic interest expense* <sup>(1)</sup>	\$411,217	\$415,581	\$392,668	\$347,501	\$306,533
Average cost of interest bearing liabilities <sup>(1)</sup>	1.89%	1.90%	1.83%	1.82%	1.74%
Economic net interest income (excluding PAA)* <sup>(1)</sup>	\$373,105	\$345,511	\$364,122	\$314,948	\$303,593
Net interest spread (excluding PAA)*	1.18%	1.09%	1.19%	1.15%	1.19%
Interest income (excluding PAA)*	\$784,322	\$761,092	\$756,790	\$662,449	\$610,126
TBA dollar roll income	62,491	88,353	89,479	94,326	81,051
Interest expense	(442,692)	(367,421)	(318,711)	(268,937)	(222,281)
Net interest component of interest rate swaps	31,475	(48,160)	(82,271)	(88,211)	(96,470)
Subtotal	\$435,596	\$433,864	\$445,287	\$399,627	\$372,426
Average interest earning assets	\$102,193,435	\$101,979,042	\$100,247,589	\$89,253,094	\$83,427,268
Average TBA contract balances	9,407,819	12,050,341	17,509,691	19,291,834	14,206,869
Subtotal	\$111,601,254	\$114,029,383	\$117,757,280	\$108,544,928	\$97,634,137
Net interest margin (excluding PAA)*	1.56%	1.52%	1.51%	1.47%	1.53%

\* Represents a non-GAAP financial measure.

1. Prior to the quarter ended March 31, 2018, this metric included the net interest component of interest rate swaps used to hedge cost of funds. Beginning with the quarter ended March 31, 2018, as a result of changes to the Company's hedging portfolio, this metric reflects the net interest component of all interest rate swaps.