



ANNALY CAPITAL MANAGEMENT, INC. REPORTS 1st QUARTER 2020 RESULTS

NEW YORK—April 29, 2020—Annaly Capital Management, Inc. (NYSE: NLY) ("Annaly" or the "Company") today announced its financial results for the quarter ended March 31, 2020.

Financial Highlights

- GAAP net income (loss) of (\$2.57) per average common share for the quarter
- Core earnings (excluding PAA) of \$0.21 per average common share for the quarter
- GAAP return on average equity of (102.17%) and core return on average equity (excluding PAA) of 9.27% for the quarter
- Book value per common share of \$7.50
- Economic leverage of 6.8x down from 7.2x in the prior quarter
- Declared quarterly common stock cash dividend of \$0.25 per share

Business Highlights

First Quarter Highlights

Investment and Strategy

- Actively managed portfolio size to reduce leverage with total assets of \$99.3 billion⁽¹⁾
- Agency MBS⁽²⁾ represents 93% of total assets and 75% of dedicated equity capital, nearly unchanged from year end
- Credit businesses well-positioned amidst current volatility given the composition of our portfolios and manageable exposure to industries and asset classes most heavily-affected as a result of COVID-19
- During the quarter, we recorded reserves of \$136.7 million (4% of ACREG and AMML's funded loan portfolio), which was largely driven by adoption of the new CECL accounting standard and COVID-19-related adverse economic scenario forecasting

Financing and Capital

- \$6.9 billion of unencumbered assets, including cash and unencumbered Agency MBS of \$4.6 billion
- Despite the heightened market volatility in March, repo operations were orderly with no collateral or margining issues
- Strong capital ratio of 12.3%, up 30 basis points since the prior quarter
- Average economic cost of funds declined by 10 basis points to 1.91%

Corporate Governance & Responsibility

- Announced Annaly will acquire its external manager, Annaly Management Company LLC, and transition to an internally-managed REIT, with the transaction on track to close by the end of the second quarter of 2020
- Appointed David Finkelstein as Chief Executive Officer and as a member of the Board
- Included in the Bloomberg Gender-Equality Index for the third consecutive year
- Utilized extensive business continuity planning to transition to remote-working environment in response to COVID-19

"First and foremost, our thoughts go out to all those affected by COVID-19. The health and well-being of our staff and our community remains our first priority and we are grateful to our talented employees who have enabled us to persevere through this challenging time," remarked David Finkelstein, Annaly's Chief Executive Officer and Chief Investment Officer.

"In light of extreme volatility, Annaly performed well through one of the most challenging and unique operating environments in our Company's history. The breadth and flexibility in our investments and financing positioned us to successfully navigate the market uncertainty and we continue to benefit from the size of our capital base and strength of our business model. We took significant, measured steps to fortify our balance sheet and liquidity to position ourselves for the remainder of the year. While we continue to be cautious, we are encouraged by the meaningful tailwinds in the mortgage market and are poised to take advantage of upcoming investment opportunities."

⁽¹⁾ Assets represent Annaly's investments that are on balance sheet, net of securitized debt of consolidated VIEs, as well as investments that are off-balance sheet in which the Company has economic exposure. Assets include TBA purchase contracts (market value) of \$13.1 billion and CMBX derivatives (market value) of \$463.5 million and are shown net of securitized debt of consolidated VIEs of \$6.4 billion.

⁽²⁾ Includes TBA purchase contracts (market value) of \$13.1 billion.

Financial Performance

The following table summarizes certain key performance indicators as of and for the quarters ended March 31, 2020, December 31, 2019 and March 31, 2019:

	March 31, 2020	December 31, 2019	March 31, 2019
Book value per common share	\$ 7.50	\$ 9.66	\$ 9.67
Economic leverage at period-end ⁽¹⁾	6.8:1	7.2:1	7.0:1
GAAP net income (loss) per average common share ⁽²⁾	\$ (2.57)	\$ 0.82	\$ (0.63)
Annualized GAAP return (loss) on average equity	(102.17%)	31.20%	(22.72%)
Net interest margin ⁽³⁾	0.18%	1.49%	0.79%
Average yield on interest earning assets ⁽⁴⁾	1.91%	3.53%	3.15%
Average GAAP cost of interest bearing liabilities ⁽⁵⁾	1.86%	2.17%	2.71%
Net interest spread	0.05%	1.36%	0.44%
Non-GAAP metrics *			
Core earnings (excluding PAA) per average common share ⁽²⁾	\$ 0.21	\$ 0.26	\$ 0.29
Annualized core return on average equity (excluding PAA)	9.27%	10.56%	11.59%
Net interest margin (excluding PAA) ⁽³⁾	1.18%	1.41%	1.51%
Average yield on interest earning assets (excluding PAA) ⁽⁴⁾	2.91%	3.25%	3.45%
Average economic cost of interest bearing liabilities ⁽⁵⁾	1.91%	2.01%	2.15%
Net interest spread (excluding PAA)	1.00%	1.24%	1.30%

* Represents a non-GAAP financial measure. Please refer to the "Non-GAAP Financial Measures" section for additional information.

(1) 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). Securitized debt, certain credit facilities (included within other secured financing) and mortgages payable are non-recourse to the Company and are excluded from this measure.

(2) Net of dividends on preferred stock.

(3) Net interest margin represents interest income less interest expense divided by average Interest Earning Assets. Net interest margin (excluding PAA) represents 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 outstanding TBA contract and CMBX balances. PAA represents 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.

(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.

Other Information

This news release 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, risks and uncertainties related to the COVID-19 pandemic, including as related to adverse economic conditions on real estate-related assets and financing conditions; changes in interest rates; changes in the yield curve; changes in prepayment rates; the availability of mortgage-backed securities and other securities for purchase; the availability of financing and, if available, the terms of any financing; changes in the market value of our assets; changes in business conditions and the general economy; our ability to grow our commercial real estate business; our ability to grow our residential credit business; our ability to grow our middle market lending business; credit risks related to our investments in credit risk transfer securities, residential mortgage-backed securities and related residential mortgage credit assets, commercial real estate assets and corporate debt; risks related to investments in 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; our ability to maintain our exemption from registration under the Investment Company Act of 1940, as amended; and risks and uncertainties associated with the Internalization, including but not limited to the occurrence of any event, change or other circumstances that could give rise to the termination of the Internalization Agreement; the outcome of any legal proceedings that may be instituted against the parties to the Internalization Agreement; the inability to complete the Internalization due to the failure to satisfy closing conditions or otherwise; risks that the Internalization disrupts our current plans and operations; the impact, if any, of the announcement or pendency of the Internalization on our relationships with third parties; and the amount of the costs, fees, expenses charges related to the Internalization; and the risk that the expected benefits, including long-term cost savings, of the Internalization are not achieved. For a discussion of the risks and uncertainties which could cause actual results to differ from those contained in the forward-looking statements, see "Risk Factors" in 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.

Annaly is a leading diversified capital manager that invests in and finances residential and commercial assets. Annaly's principal business objective is to generate net income for distribution to its stockholders and to optimize its returns through prudent management of its diversified investment strategies. Annaly has elected to be taxed as a real estate investment trust, or REIT, for federal income tax purposes. Prior to the closing of the transaction discussed above, Annaly is externally managed by Annaly Management Company LLC. Additional information on the company can be found at www.annaly.com.

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 "Email Alerts" section of our website, www.annaly.com, under the "Investors" section and enter the required information to enable notifications. 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.

The Company prepares a supplemental investor presentation and a financial summary for the benefit of its shareholders. Both the First Quarter 2020 Investor Presentation and the First Quarter 2020 Financial Summary can be found at the Company's website (www.annaly.com) in the Investors section under Investor Presentations.

Conference Call

The Company will hold the first quarter 2020 earnings conference call on April 30, 2020 at 10:00 a.m. Eastern Time. Participants are encouraged to pre-register for the conference call to receive a unique PIN to gain immediate access to the call and bypass the live operator. Pre-registration may be completed by accessing the Pre-Registration link found on the homepage or "Investors" section of the Company's website at www.annaly.com, or by using the following link: <http://dpreregister.com/10142582>.

Pre-registration may be completed at any time, including up to and after the call start time.

For participants who would like to join the call but have not pre-registered, access is available by dialing 844-735-3317 within the U.S., or 412-317-5703 internationally, and requesting the "Annaly Earnings Call."

There will also be an audio webcast of the call on www.annaly.com. A replay of the call will be available for one week following the conference call. The replay number is 877-344-7529 for domestic calls and 412-317-0088 for international calls and the conference passcode is 10142582. If you would like to be added to the e-mail distribution list, please visit www.annaly.com, click on Investors, then select Email Alerts and complete the email notification form.

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

	March 31, 2020	December 31, 2019 ⁽¹⁾	September 30, 2019	June 30, 2019	March 31, 2019
	(unaudited)		(unaudited)	(unaudited)	(unaudited)
Assets					
Cash and cash equivalents	\$ 2,823,521	\$ 1,850,729	\$ 1,793,921	\$ 1,982,311	\$ 1,522,605
Securities	79,357,596	114,833,580	116,094,061	119,926,869	104,993,271
Loans, net	4,068,189	4,462,350	3,946,614	3,546,468	3,879,324
Mortgage servicing rights	280,558	378,078	386,051	425,328	500,745
Assets transferred or pledged to securitization vehicles	7,671,662	7,002,460	4,688,144	4,211,582	4,365,300
Real estate, net	751,738	725,638	725,508	733,196	734,239
Derivative assets	238,776	113,556	168,755	75,142	148,178
Reverse repurchase agreements	—	—	—	—	523,449
Receivable for unsettled trades	1,006,853	4,792	193,229	5,322	1,574,251
Principal and interest receivable	335,170	449,906	483,744	440,940	390,930
Goodwill and intangible assets, net	98,293	92,772	94,904	96,591	98,551
Other assets	284,918	381,220	381,189	357,027	441,706
Total assets	\$ 96,917,274	\$ 130,295,081	\$ 128,956,120	\$ 131,800,776	\$ 119,172,549
Liabilities and stockholders' equity					
Liabilities					
Repurchase agreements	\$ 72,580,183	\$ 101,740,728	\$ 102,682,104	\$ 105,181,241	\$ 88,554,170
Other secured financing	1,805,428	4,455,700	4,466,030	4,127,989	4,144,623
Debt issued by securitization vehicles	6,364,949	5,622,801	3,856,082	3,470,168	3,693,766
Mortgages payable	484,762	485,005	485,657	498,772	510,386
Derivative liabilities	1,331,188	803,866	972,415	1,043,197	775,980
Payable for unsettled trades	923,552	463,387	245,626	620,784	4,763,376
Interest payable	261,304	476,335	565,797	691,327	424,391
Dividends payable	357,606	357,527	359,491	364,066	434,431
Other liabilities	100,772	93,388	99,214	95,825	89,982
Total liabilities	84,209,744	114,498,737	113,732,416	116,093,369	103,391,105
Stockholders' equity					
Preferred stock, par value \$0.01 per share ⁽²⁾	1,982,026	1,982,026	1,982,026	2,110,346	1,778,168
Common stock, par value \$0.01 per share ⁽³⁾	14,304	14,301	14,380	14,562	14,481
Additional paid-in capital	19,968,372	19,966,923	20,034,970	20,195,419	20,112,875
Accumulated other comprehensive income (loss)	3,121,371	2,138,191	2,313,815	1,365,003	(319,376)
Accumulated deficit	(12,382,648)	(8,309,424)	(9,125,895)	(7,982,649)	(5,809,931)
Total stockholders' equity	12,703,425	15,792,017	15,219,296	15,702,681	15,776,217
Noncontrolling interests	4,105	4,327	4,408	4,726	5,227
Total equity	12,707,530	15,796,344	15,223,704	15,707,407	15,781,444
Total liabilities and equity	\$ 96,917,274	\$ 130,295,081	\$ 128,956,120	\$ 131,800,776	\$ 119,172,549

⁽¹⁾ Derived from the audited consolidated financial statements at December 31, 2019.

⁽²⁾ 7.625% Series C Cumulative Redeemable Preferred Stock - Includes 0 shares authorized, issued and outstanding at March 31, 2020, December 31, 2019 and September 30, 2019. Includes 7,000,000 shares authorized, issued and outstanding at June 30, 2019 and March 31, 2019.

7.50% Series D Cumulative Redeemable Preferred Stock - Includes 18,400,000 shares authorized, issued and outstanding.

6.95% Series F Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock - Includes 28,800,000 shares authorized, issued and outstanding.

6.50% Series G Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock - Includes 19,550,000 shares authorized and 17,000,000 shares issued and outstanding.

8.125% Series H Cumulative Redeemable Preferred Stock - Includes 0 shares authorized, issued and outstanding at March 31, 2020, December 31, 2019, September 30, 2019 and June 30, 2019. Includes 2,200,000 shares authorized, issued and outstanding at March 31, 2019.

6.75% Series I Preferred Stock - Includes 18,400,000 shares authorized and 17,700,000 issued and outstanding at March 31, 2020, December 31, 2019 and September 30, 2019. Includes 18,400,000 shares authorized and 16,000,000 issued and outstanding at June 30, 2019. Includes 0 shares authorized, issued and outstanding at March 31, 2019.

⁽³⁾ Includes 2,914,850,000 shares authorized and 1,430,424,398 shares issued and outstanding at March 31, 2020. Includes 2,914,850,000 shares authorized and 1,430,106,199 shares issued and outstanding at December 31, 2019. Includes 2,914,850,000 shares authorized and 1,437,964,466 shares issued and outstanding at September 30, 2019. Includes 2,907,850,000 shares authorized and 1,456,263,410 shares issued and outstanding at June 30, 2019. Includes 1,924,050,000 shares authorized and 1,448,103,248 shares issued and outstanding at March 31, 2019.

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

	For the quarters ended				
	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
Net interest income					
Interest income	\$ 555,026	\$ 1,074,214	\$ 919,299	\$ 927,598	\$ 866,186
Interest expense	503,473	620,058	766,905	750,217	647,695
Net interest income	51,553	454,156	152,394	177,381	218,491
Realized and unrealized gains (losses)					
Net interest component of interest rate swaps	(13,980)	45,221	88,466	83,653	134,035
Realized gains (losses) on termination or maturity of interest rate swaps	(397,561)	(4,615)	(682,602)	(167,491)	(588,256)
Unrealized gains (losses) on interest rate swaps	(2,827,723)	782,608	(326,309)	(1,276,019)	(390,556)
Subtotal	(3,239,264)	823,214	(920,445)	(1,359,857)	(844,777)
Net gains (losses) on disposal of investments and other	206,583	17,783	66,522	(38,333)	(93,916)
Net gains (losses) on other derivatives	206,426	(42,312)	(16,888)	(506,411)	(115,159)
Net unrealized gains (losses) on instruments measured at fair value through earnings	(730,160)	(5,636)	(1,091)	(4,881)	47,629
Loan loss provision	(99,326)	(7,362)	(3,504)	—	(5,703)
Subtotal	(416,477)	(37,527)	45,039	(549,625)	(167,149)
Total realized and unrealized gains (losses)	(3,655,741)	785,687	(875,406)	(1,909,482)	(1,011,926)
Other income (loss)	14,926	42,656	35,074	28,181	30,502
General and administrative expenses					
Compensation and management fee	40,825	40,403	41,161	44,231	44,833
Other general and administrative expenses	36,804	32,948	24,977	34,177	38,904
Total general and administrative expenses	77,629	73,351	66,138	78,408	83,737
Income (loss) before income taxes	(3,666,891)	1,209,148	(754,076)	(1,782,328)	(846,670)
Income taxes	(26,702)	(594)	(6,907)	(5,915)	2,581
Net income (loss)	(3,640,189)	1,209,742	(747,169)	(1,776,413)	(849,251)
Net income (loss) attributable to noncontrolling interests	66	68	(110)	(83)	(101)
Net income (loss) attributable to Annaly	(3,640,255)	1,209,674	(747,059)	(1,776,330)	(849,150)
Dividends on preferred stock ⁽¹⁾	35,509	35,509	36,151	32,422	32,494
Net income (loss) available (related) to common stockholders	\$ (3,675,764)	\$ 1,174,165	\$ (783,210)	\$ (1,808,752)	\$ (881,644)
Net income (loss) per share available (related) to common stockholders					
Basic	\$ (2.57)	\$ 0.82	\$ (0.54)	\$ (1.24)	\$ (0.63)
Diluted	\$ (2.57)	\$ 0.82	\$ (0.54)	\$ (1.24)	\$ (0.63)
Weighted average number of common shares outstanding					
Basic	1,430,994,319	1,431,079,108	1,453,359,211	1,456,038,736	1,398,614,205
Diluted	1,430,994,319	1,431,079,108	1,453,359,211	1,456,038,736	1,398,614,205
Other comprehensive income (loss)					
Net income (loss)	\$ (3,640,189)	\$ 1,209,742	\$ (747,169)	\$ (1,776,413)	\$ (849,251)
Unrealized gains (losses) on available-for-sale securities	1,374,796	(153,192)	1,034,873	1,654,783	1,599,398
Reclassification adjustment for net (gains) losses included in net income (loss)	(391,616)	(22,432)	(86,061)	29,596	61,091
Other comprehensive income (loss)	983,180	(175,624)	948,812	1,684,379	1,660,489
Comprehensive income (loss)	(2,657,009)	1,034,118	201,643	(92,034)	811,238
Comprehensive income (loss) attributable to noncontrolling interests	66	68	(110)	(83)	(101)
Comprehensive income (loss) attributable to Annaly	(2,657,075)	1,034,050	201,753	(91,951)	811,339
Dividends on preferred stock ⁽¹⁾	35,509	35,509	36,151	32,422	32,494
Comprehensive income (loss) attributable to common stockholders	\$ (2,692,584)	\$ 998,541	\$ 165,602	\$ (124,373)	\$ 778,845

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

Key Financial Data

The following table presents key metrics of the Company's portfolio, liabilities and hedging positions, and performance as of and for the quarters ended March 31, 2020, December 31, 2019, and March 31, 2019:

	March 31, 2020	December 31, 2019	March 31, 2019
Portfolio related metrics			
Fixed-rate Residential Securities as a percentage of total Residential Securities	99%	97%	94%
Adjustable-rate and floating-rate Residential Securities as a percentage of total Residential Securities	1%	3%	6%
Weighted average experienced CPR for the period	13.6%	17.8%	7.3%
Weighted average projected long-term CPR at period-end	17.7%	13.9%	11.6%
Liabilities and hedging metrics			
Weighted average days to maturity on repurchase agreements outstanding at period-end	48	65	72
Hedge ratio ⁽¹⁾	19%	75%	85%
Weighted average pay rate on interest rate swaps at period-end ⁽²⁾	1.63%	1.84%	2.20%
Weighted average receive rate on interest rate swaps at period-end ⁽²⁾	1.16%	1.89%	2.66%
Weighted average net rate on interest rate swaps at period-end ⁽²⁾	0.47%	(0.05%)	(0.46%)
Leverage at period-end ⁽³⁾	6.4:1	7.1:1	6.1:1
Economic leverage at period-end ⁽⁴⁾	6.8:1	7.2:1	7.0:1
Capital ratio at period-end	12.3%	12.0%	12.0%
Performance related metrics			
Book value per common share	\$ 7.50	\$ 9.66	\$ 9.67
GAAP net income (loss) per average common share ⁽⁵⁾	\$ (2.57)	\$ 0.82	\$ (0.63)
Annualized GAAP return (loss) on average equity	(102.17%)	31.20%	(22.72%)
Net interest margin ⁽⁶⁾	0.18%	1.49%	0.79%
Average yield on interest earning assets ⁽⁷⁾	1.91%	3.53%	3.15%
Average GAAP cost of interest bearing liabilities ⁽⁸⁾	1.86%	2.17%	2.71%
Net interest spread	0.05%	1.36%	0.44%
Dividend declared per common share	\$ 0.25	\$ 0.25	\$ 0.30
Annualized dividend yield ⁽⁹⁾	19.72%	10.62%	12.01%
Non-GAAP metrics *			
Core earnings (excluding PAA) per average common share ⁽⁵⁾	\$ 0.21	\$ 0.26	\$ 0.29
Annualized core return on average equity (excluding PAA)	9.27%	10.56%	11.59%
Net interest margin (excluding PAA) ⁽⁶⁾	1.18%	1.41%	1.51%
Average yield on interest earning assets (excluding PAA) ⁽⁷⁾	2.91%	3.25%	3.45%
Average economic cost of interest bearing liabilities ⁽⁸⁾	1.91%	2.01%	2.15%
Net interest spread (excluding PAA)	1.00%	1.24%	1.30%

* Represents a non-GAAP financial measure. Please refer to the "Non-GAAP Financial Measures" section for additional information.

(1) Measures total notional balances of interest rate swaps, interest rate swaptions (excluding receiver swaptions) and futures relative to repurchase agreements, other secured financing and cost basis of TBA derivatives 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.

(2) Excludes forward starting swaps.

(3) Debt consists of repurchase agreements, other secured financing, securitized debt and mortgages payable. Certain credit facilities (included within other secured financing), securitized debt and mortgages payable are non-recourse to the Company.

(4) 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.

(5) Net of dividends on preferred stock.

(6) Net interest margin represents interest income less interest expense divided by average interest earning assets. Net interest margin (excluding PAA) represents 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.

(7) 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).

(8) 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.

(9) Based on the closing price of the Company's common stock of \$5.07, \$9.42 and \$9.99 at March 31, 2020, December 31, 2019 and March 31, 2019, respectively.

The following table contains additional information on our residential and commercial investments as of the dates presented:

	For the quarters ended		
	March 31, 2020	December 31, 2019	March 31, 2019
Agency mortgage-backed securities	\$ 78,456,846	\$ 112,893,367	\$ 103,093,526
Credit risk transfer securities	222,871	531,322	607,945
Non-agency mortgage-backed securities	585,954	1,135,868	1,116,569
Commercial mortgage-backed securities	91,925	273,023	175,231
Total securities	\$ 79,357,596	\$ 114,833,580	\$ 104,993,271
Residential mortgage loans	\$ 1,268,083	\$ 1,647,787	\$ 1,311,720
Commercial real estate debt and preferred equity	649,843	669,713	722,962
Corporate debt	2,150,263	2,144,850	1,758,082
Loans held for sale	—	—	86,560
Total loans, net	\$ 4,068,189	\$ 4,462,350	\$ 3,879,324
Mortgage servicing rights	\$ 280,558	\$ 378,078	\$ 500,745
Agency mortgage-backed securities transferred or pledged to securitization vehicles	\$ 1,803,608	\$ 1,122,588	\$ —
Residential mortgage loans transferred or pledged to securitization vehicles	3,027,188	2,598,374	1,425,668
Commercial real estate debt investments transferred or pledged to securitization vehicles	1,927,575	2,345,120	2,939,632
Commercial real estate debt and preferred equity transferred or pledged to securitization vehicles	913,291	936,378	—
Assets transferred or pledged to securitization vehicles	\$ 7,671,662	\$ 7,002,460	\$ 4,365,300
Real estate, net	\$ 751,738	\$ 725,638	\$ 734,239
Total residential and commercial investments	\$ 92,129,743	\$ 127,402,106	\$ 114,472,879

Non-GAAP Financial Measures

To supplement its consolidated financial statements, which are prepared and presented in accordance with U.S. generally accepted accounting principles ("GAAP"), the Company provides the following non-GAAP measures:

- core earnings (excluding PAA);
- core earnings (excluding PAA) attributable to common stockholders;
- core earnings (excluding PAA) per average common share;
- annualized core return on average equity (excluding PAA);
- interest income (excluding PAA);
- economic interest expense;
- economic net interest income (excluding PAA);
- average yield on interest earning assets (excluding PAA);
- 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 the Company's results and operations, non-GAAP financial measures also have limitations. For example, the Company may calculate its non-GAAP metrics, such as core earnings (excluding PAA), or the PAA, differently than its 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 the Company 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 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. Additional information pertaining to the Company's use of these non-GAAP financial measures, including discussion of how each such measure may be useful to investors, and reconciliations to their most directly comparable GAAP results are provided below.

Core earnings (excluding PAA), core earnings (excluding PAA) attributable to common stockholders, core earnings (excluding PAA) per average common share and annualized core return on average equity (excluding PAA)

The Company's principal business objective is to generate net income for distribution to its stockholders and to preserve capital through prudent selection of investments and continuous management of its portfolio. The Company generates net income by earning a net interest spread on its investment portfolio, which is a function of interest income from its investment portfolio less financing, hedging and operating costs. Core earnings (excluding PAA), which is defined as the sum of (a) economic net interest income, (b) TBA dollar roll income and CMBX coupon income, (c) realized amortization of MSRs, (d) other income (loss) (excluding depreciation and amortization expense on real estate and related intangibles, non-core income allocated to equity method investments and other non-core components of other income (loss)), (e) general and administrative expenses (excluding transaction expenses and non-recurring items), and (f) income taxes (excluding the income tax effect of non-core income (loss) items) and 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 the Company's Agency mortgage-backed securities ("PAA"), is used by the Company's management and, the Company believes, used by analysts and investors to measure its progress in achieving its principal business objective.

The Company seeks to fulfill this 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 the Company's capital allocation policy and risk governance framework.

The Company believes these non-GAAP measures provide management and investors with additional details regarding the Company's 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 the Company's portfolio. Annualized core return on average equity (excluding PAA), which is calculated by dividing core earnings (excluding PAA) over average stockholders' equity, provides investors with additional detail on the core earnings (excluding PAA) generated by the Company's invested equity capital.

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

	For the quarters ended		
	March 31, 2020	December 31, 2019	March 31, 2019
	(dollars in thousands, except per share data)		
GAAP net income (loss)	\$ (3,640,189)	\$ 1,209,742	\$ (849,251)
Net income (loss) attributable to noncontrolling interests	66	68	(101)
Net income (loss) attributable to Annaly	(3,640,255)	1,209,674	(849,150)
Adjustments to exclude reported realized and unrealized (gains) losses			
Realized (gains) losses on termination or maturity of interest rate swaps	397,561	4,615	588,256
Unrealized (gains) losses on interest rate swaps	2,827,723	(782,608)	390,556
Net (gains) losses on disposal of investments and other	(206,583)	(17,783)	93,916
Net (gains) losses on other derivatives	(206,426)	42,312	115,159
Net unrealized (gains) losses on instruments measured at fair value through earnings	730,160	5,636	(47,629)
Loan loss provision ⁽¹⁾	99,993	7,362	5,703
Adjustments to exclude components of other (income) loss			
Depreciation and amortization expense related to commercial real estate	7,934	9,823	10,114
Non-core (income) loss allocated to equity method investments ⁽²⁾	19,398	(3,979)	9,496
Adjustments to exclude components of general and administrative expenses and income taxes			
Transaction expenses and non-recurring items ⁽³⁾	7,245	3,634	9,982
Income tax effect of non-core income (loss) items	(23,862)	(418)	726
Adjustments to add back components of realized and unrealized (gains) losses			
TBA dollar roll income and CMBX coupon income ⁽⁴⁾	44,904	36,901	38,134
MSR amortization ⁽⁵⁾	(18,296)	(22,120)	(13,979)
Plus:			
Premium amortization adjustment cost (benefit)	290,722	(83,892)	81,871
Core earnings (excluding PAA) *	330,218	409,157	433,155
Dividends on preferred stock	35,509	35,509	32,494
Core earnings (excluding PAA) attributable to common stockholders *	\$ 294,709	\$ 373,648	\$ 400,661
GAAP net income (loss) per average common share	\$ (2.57)	\$ 0.82	\$ (0.63)
Core earnings (excluding PAA) per average common share *	\$ 0.21	\$ 0.26	\$ 0.29
Annualized GAAP return (loss) on average equity	(102.17%)	31.20%	(22.72%)
Annualized core return on average equity (excluding PAA) *	9.27%	10.56%	11.59%

* Represents a non-GAAP financial measure.

⁽¹⁾ Includes \$0.7 million of loss provision on the Company's unfunded loan commitments for the quarter ended March 31, 2020 which is reported in Other income (loss) in the Company's Consolidated Statements of Comprehensive Income (Loss).

⁽²⁾ The Company excludes non-core (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).

⁽³⁾ The quarter ended March 31, 2020 includes costs incurred in connection with securitizations of Agency mortgage-backed securities and residential whole loans as well as costs incurred in connection with the expected Internalization and costs incurred in connection with the CEO transition. The quarter ended December 31, 2019 includes costs incurred in connection with securitizations of Agency mortgage-backed securities and residential whole loans. The quarter ended March 31, 2019 includes costs incurred in connection with a securitization of commercial loans and a securitization of residential whole loans.

⁽⁴⁾ TBA dollar roll income and CMBX coupon income each represent a component of Net gains (losses) on other derivatives. CMBX coupon income totaled \$1.2 million, \$1.3 million and \$1.1 million for the quarters ended March 31, 2020, December 31, 2019 and March 31, 2019, respectively.

⁽⁵⁾ 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.

From time to time, the Company enters 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.

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. The Company records TBA derivatives at fair value on its Consolidated Statements of Financial Condition and recognizes periodic changes in fair value in Net gains (losses) on other derivatives in the Consolidated Statements of Comprehensive Income (Loss), which includes both unrealized and realized gains and losses on derivatives (excluding interest rate swaps).

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

The CMBX index is a synthetic tradable index referencing a basket of 25 commercial mortgage-backed securities ("CMBS") of a particular rating and vintage. The CMBX index allows investors to take a long exposure (referred to as selling protection) or short exposure (referred to as buying protection) on the respective basket of CMBS securities and is structured as a "pay-as-you-go" contract whereby the protection buyer pays to the protection seller a standardized running coupon on the contracted notional amount. The Company reports income (expense) on CMBX positions in Net gains (losses) on other derivatives in the Consolidated Statements of Comprehensive Income (Loss). The coupon payments received or paid on CMBX positions are equivalent to interest income (expense) and therefore included in core earnings (excluding PAA).

Premium Amortization Expense

In accordance with GAAP, the Company amortizes or accretes premiums or discounts into interest income for its 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. 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. 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.

The Company's GAAP metrics include the unadjusted impact of amortization and accretion associated with this method. Certain of the Company's 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 CPR.

The following table illustrates the impact of the PAA on premium amortization expense for the Company's Residential Securities portfolio and residential securities transferred or pledged to securitization vehicles, for the quarters ended March 31, 2020, December 31, 2019, and March 31, 2019:

	For the quarters ended		
	March 31, 2020	December 31, 2019	March 31, 2019
	(dollars in thousands)		
Premium amortization expense (accretion)	\$ 616,937	\$ 171,447	\$ 247,446
Less: PAA cost (benefit)	290,722	(83,892)	81,871
Premium amortization expense (excluding PAA)	\$ 326,215	\$ 255,339	\$ 165,575

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 PAA, 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. The Company believes this measure provides management and investors with additional detail to enhance their understanding of the Company's operating results and trends by excluding the component of premium amortization expense 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 (other than interest-only securities), which can obscure underlying trends in the performance of the portfolio.

Economic interest expense includes GAAP interest expense and the net interest component of interest rate swaps. The Company uses interest rate swaps to manage its exposure to changing interest rates on its repurchase agreements by economically hedging cash flows associated with these borrowings. 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 the Company's financing strategy. The Company may use market agreed coupon ("MAC") interest rate swaps in which the Company 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 Company's Consolidated Statements of Comprehensive Income (Loss). The Company did not enter into any MAC interest rate swaps during the quarter ended March 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.

	For the quarters ended		
	March 31, 2020	December 31, 2019	March 31, 2019
Interest income (excluding PAA) reconciliation (dollars in thousands)			
GAAP interest income	\$ 555,026	\$ 1,074,214	\$ 866,186
Premium amortization adjustment	290,722	(83,892)	81,871
Interest income (excluding PAA) *	\$ 845,748	\$ 990,322	\$ 948,057
Economic interest expense reconciliation			
GAAP interest expense	\$ 503,473	\$ 620,058	\$ 647,695
Add:			
Net interest component of interest rate swaps	13,980	(45,221)	(134,035)
Economic interest expense *	\$ 517,453	\$ 574,837	\$ 513,660
Economic net interest income (excluding PAA) reconciliation			
Interest income (excluding PAA) *	\$ 845,748	\$ 990,322	\$ 948,057
Less:			
Economic interest expense *	517,453	574,837	513,660
Economic net interest income (excluding PAA) *	\$ 328,295	\$ 415,485	\$ 434,397

* Represents a non-GAAP financial measure.

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 the Company's 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 the Company's performance.

	For the quarters ended		
	March 31, 2020	December 31, 2019	March 31, 2019
Economic metrics (excluding PAA)	(dollars in thousands)		
Average interest earning assets	\$ 116,063,895	\$ 121,801,951	\$ 109,946,527
Interest income (excluding PAA) *	\$ 845,748	\$ 990,322	\$ 948,057
Average yield on interest earning assets (excluding PAA) *	2.91%	3.25%	3.45%
Average interest bearing liabilities	\$ 107,029,466	\$ 111,873,379	\$ 95,529,819
Economic interest expense *	\$ 517,453	\$ 574,837	\$ 513,660
Average economic cost of interest bearing liabilities *	1.91%	2.01%	2.15%
Economic net interest income (excluding PAA) *	\$ 328,295	\$ 415,485	\$ 434,397
Net interest spread (excluding PAA) *	1.00%	1.24%	1.30%
Interest income (excluding PAA) *	\$ 845,748	\$ 990,322	\$ 948,057
TBA dollar roll income and CMBX coupon income	44,904	36,901	38,134
Interest expense	(503,473)	(620,058)	(647,695)
Net interest component of interest rate swaps	(13,980)	45,221	134,035
Subtotal	\$ 373,199	\$ 452,386	\$ 472,531
Average interest earnings assets	\$ 116,063,895	\$ 121,801,951	\$ 109,946,527
Average TBA contract and CMBX balances	9,965,142	6,878,502	14,927,490
Subtotal	\$ 126,029,037	\$ 128,680,453	\$ 124,874,017
Net interest margin (excluding PAA) *	1.18%	1.41%	1.51%

* Represents a non-GAAP financial measure.