ANNALY®

Third Quarter 2016 Investor Presentation

November 2, 2016

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

Non-GAAP Financial Measures

This presentation includes certain non-GAAP financial measures. The non-GAAP financial measures should not be viewed in isolation and are not a substitute for financial measures computed in accordance with GAAP. Please see the section entitled “Non-GAAP Reconciliations” in the attached Appendix for a reconciliation to the most directly comparable GAAP financial measures.

Overview

The Case for Owning Annaly

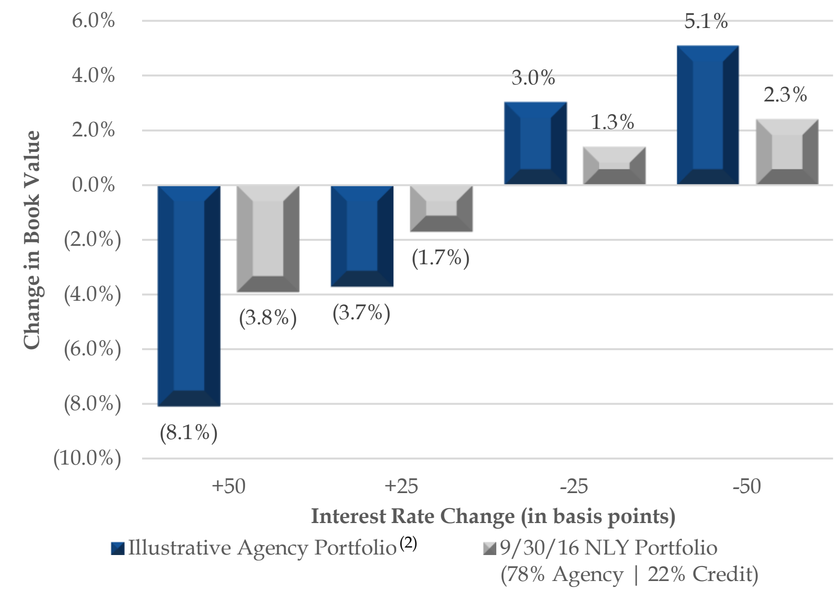
Size and Liquidity	▪ ~15x Size of Median mREIT	Relative Performance / Valuation	▪ Valuation More Attractive than Other Yield Sectors Given Favorable Performance, Yield and Leverage Profile
Diversification Strategy	▪ Four Distinct Businesses Designed to Produce More Stable Earnings and Book Value	Consolidator	▪ Recent Hatteras Acquisition Demonstrates External Growth and Ability to be Opportunistic
Stability & Liquidity	▪ Financial Performance Significantly Less Volatile than the Agency mREIT Sector(1)	Prominent Institutional Sponsorship	▪ Investor Base Includes Leading Equity and Bond Fund Managers
Premium Yield with Downside Protection	▪ Durability of Book Value Supported by Diversification, Asset and Hedge Selection	Management / Employee Stock Ownership	▪ Significant Management Share Purchases; Unique Employee Stock Ownership Guidelines
Operating Efficiency	▪ Expense Level as a Percentage of Equity is 52% Lower than the mREIT Sector Average(2)	Track Record	▪ Outperformed S&P 500 by 3x and mREIT Sector by Nearly 5x since Annaly's IPO(3)

Source: Bloomberg and company filings. Market data as of September 30, 2016. Quarterly peer financial data as of September 30, 2016, unless otherwise noted. All peer comparisons represent NLY vs. the Bloomberg mREIT Index (BBREMTG) unless otherwise noted.
(1) Agency peers include AGNC, CMO, ANH, CYS and ARR.
(2) Represents average expense levels from 2012 through first half of 2016 annualized as a percentage of average equity.
(3) Represents weekly total return of Annaly against the BBREMTG Index and the S&P 500 from IPO (October 10, 1997) through September 30, 2016.

Benefits of Diversification

Expansion of Annaly's capital into credit as well as diversification within the Agency portfolio has helped to produce more stable returns and protect book value

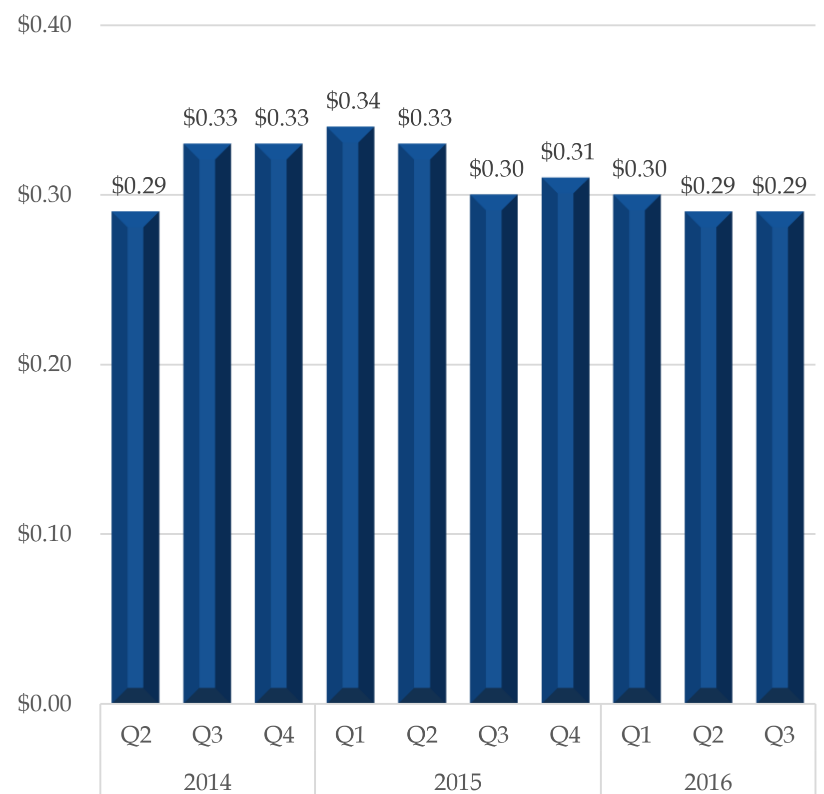
Book Value Protection



Basis Point Change	+50	+25	-25	-50
Breakeven Quarters [3]	< 2	< 1	N/A	N/A
Scenario Probability Last 15 Qtrs [4]	13%	20%	33%	0%

Annaly's current interest rate sensitivity has been significantly reduced through its diversification efforts

Stability of Core Earnings[1]

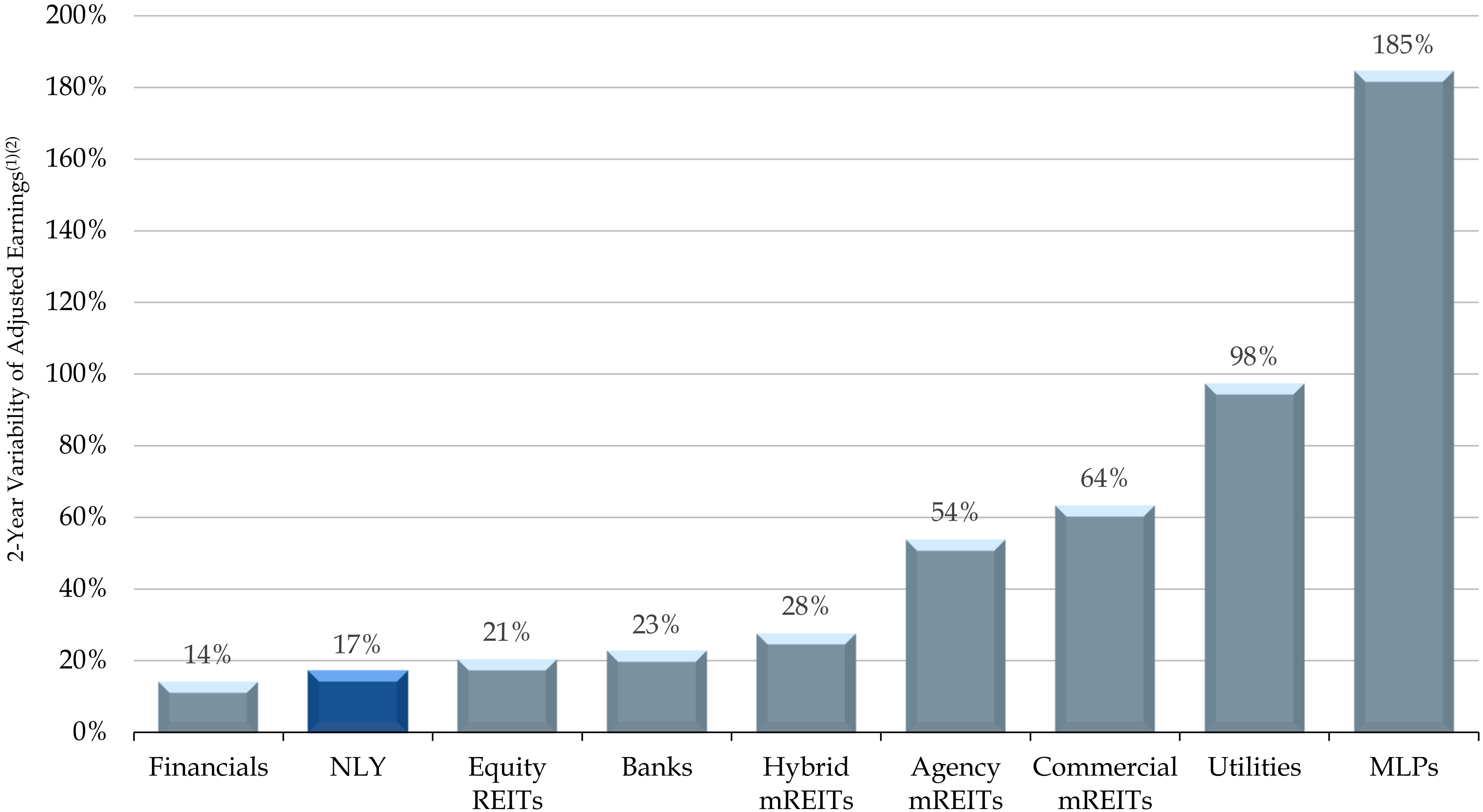


Annaly's core earnings per share have been between $0.29 and $0.34 in each of the last 10 quarters, which is 81% more stable than its Agency peers [5]

(1) "Core earnings" represents a non-GAAP financial measure; see Appendix.
(2) Illustrative Agency Portfolio assumes an 8.0x levered portfolio with a composition similar to NLY's 12/31/12 portfolio, utilizing NLY's current prepayment model.
(3) Represents the number of quarterly dividends required to earn back the book value loss from 9/30/16 (NLY dividend assumed as $0.30, which is current Bloomberg consensus estimate for Q4 2016).
(4) Over the past 15 quarters (since Q4 2012), the percentage shown reflects the frequency with which the rate scenario materialized from beginning to end of quarter.
(5) Methodologies or definitions of core earnings and other non-GAAP earnings measures vary by Agency peers (AGNC, CMO, ANH, CYS, ARR). AGNC refers to net spread and dollar roll income excluding estimated "catch-up" premium amortization cost. CYS and ARR refer to core income plus drop income. CMO and ANH refer to core earnings. Volatility based on core earnings and other adjusted earnings measures from Q2 2014 to Q3 2016 for NLY, AGNC, CYS, and CMO and Q2 2014 to Q2 2016 for ANH and ARR.

Stability of Annaly's Core Earnings[1] vs. Other Yield Investments

Despite heightened market volatility, Annaly has continued to offer stable core earnings over the past 2 years, particularly when compared to other yield strategies



Source: Bloomberg, Company filings, SNL Financial. Agency mREITs include AGNC, ARR, ANH, CMO and CYS. Hybrid and Commercial mREITs include 5 largest companies in each sector by market cap as of September 30, 2016. Utilities represent the Russell 3000 Utilities Index. MLPs represent the Alerian MLP Index. Banks represent the KBW Bank Index. Financials represent the S&P 500 Financial Index. Equity REITs represent the FTSE NAREIT Index.

(1) "Core Earnings" represents a non-GAAP financial measure; see Appendix.

(2) Variability calculated as the percentage range between the highest and lowest quarterly "Adjusted Earnings" figures for each company from Q3 2014 to Q2 2016. Annaly and all mREITs utilize "Core" or similarly adjusted EPS; Banks and Financials utilize adjusted net income; and Equity REITs, Utilities and MLPs utilize EBITDA.

Annaly's Strong Balance Sheet and Liquidity

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

Total Capitalization of $78+ bn

- At 128 days, represents one of the longest weighted average maturities in the mREIT sector(1)
- RCap, in place since 2008, provides beneficial access to FICC market
- Strong counterparty credit quality and significant capacity available

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

- Currently $650 million of total credit facility size with incremental capacity available
- Asset diversification provides more opportunities for lending relationships

- Largest preferred capital base in the mREIT sector and larger than 97% of all publicly traded REITs (2)
- mREIT sector-low(1) weighted average coupon of 7.62%

- Largest capital base in the mREIT sector and larger than 99% of all publicly traded REITs (2)
- Provides liquidity to investors and for future market opportunities not available to many other industry participants

In addition to Annaly's multiple funding sources, approximately $8 billion in unencumbered assets provide the Company with significant liquidity

Note: Financial data is as of September 30, 2016.
(1) mREITs represent the Bloomberg mREIT Index.
(2) Publicly traded REITs defined as all REITs within the Bloomberg United States REIT list. Calculation as of September 30, 2016.

Annaly's Diversified Financing Sources

Annaly continues to maintain one of the most diverse funding profiles in the real estate finance sector

	ANNALY	Top 5 mREITs of each sector by market cap: Agency	Hybrid	Commercial
Agency & Non-Agency Repo	●	●	●	◔
FHLB[(1)]	●	◔	◑	○
Broker-Dealer	●	◔	○	○
Credit Facilities	●	○	○	●
Securitization	●	◔	●	●
A-Notes	●	○	○	●
Convertible Notes	●	○	◔	●
Preferred Equity	●	●	◕	◕

No. of Top 5 mREITs in each sector that have utilized specified financing: ● 4-5 mREITs ◕ 3 mREITs ◑ 2 mREITs ◔ 1 mREIT ○ 0 mREITs

Source: Bloomberg, SNL Financial, and Company filings as of September 30, 2016 or most recent quarter available. Includes top 5 Mortgage REITs in each sector by market cap as of September 30, 2016, excluding Annaly.
Note: Full Harvey Ball credit given to Annaly for each financing alternative that it currently utilizes or has previously utilized.
(1) Full Harvey Ball credit given to FHLB with initial 5-year sunset ending February 2021. No Harvey Ball credit given to FHLB with 1-year sunset ending February 2017.

Efficiency of Operating Model

Annaly's diversified platform operates more efficiently than the average internally and externally managed mREIT

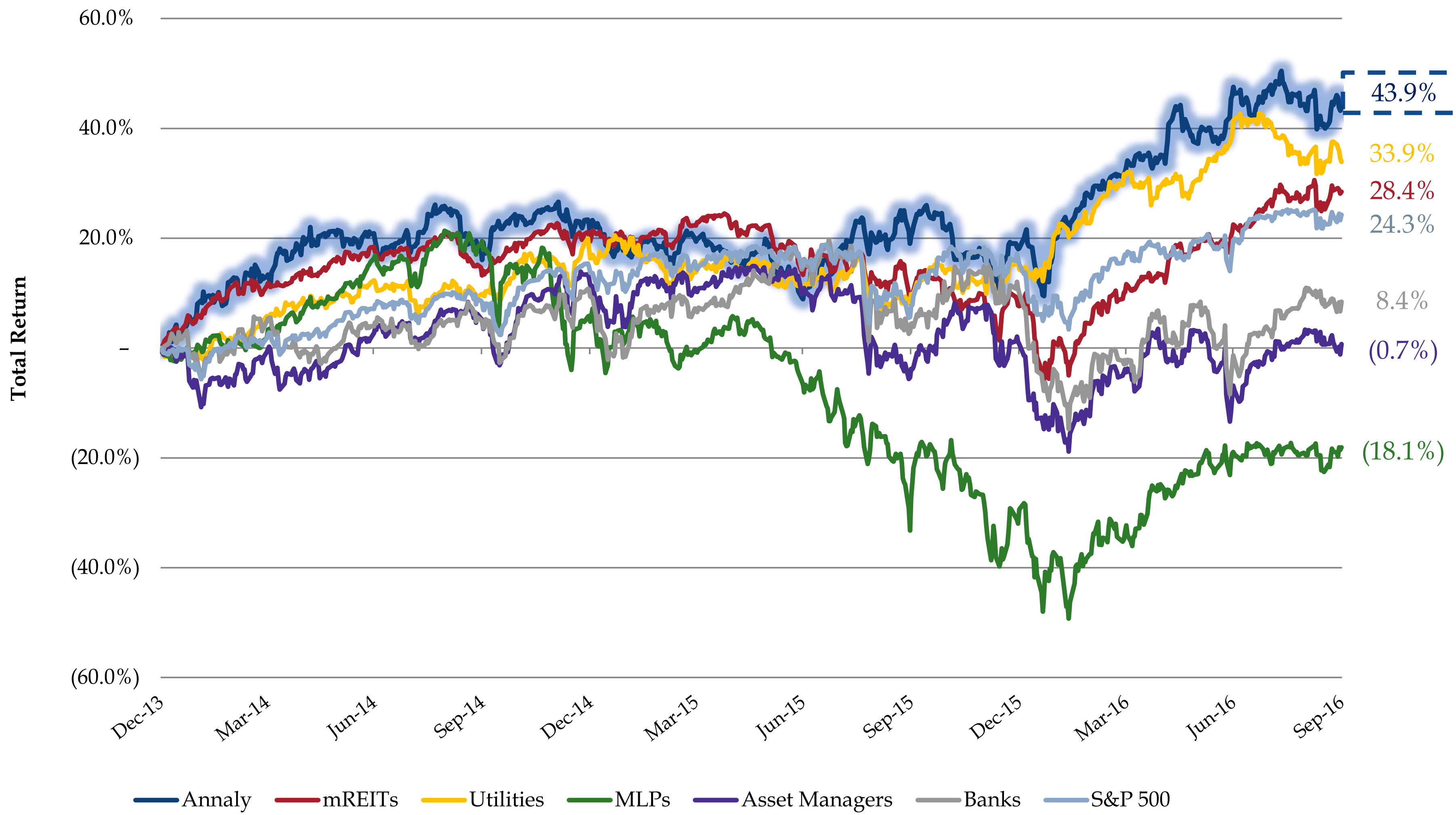
- From 2012 through annualized 1H 2016, Annaly significantly outperformed its mREIT peers with respect to operating expenditures as a percentage of assets and as a percentage of equity
  - Annaly's average expense levels over the period were **67% lower** as a percentage of average assets and **52% lower** as a percentage of average equity
  - Annaly expense levels averaged 0.23% as a percentage of assets and 1.60% as a percentage of equity, while mREIT peers averaged 0.71% and 3.30%, respectively

		2012	2013	2014	2015	2016E [(1)]	Average
OpEx as % of Avg Assets	ANNALY	0.19%	0.22%	0.24%	0.25%	0.25%	**0.23%**
	Internal Management	0.54%	0.91%	0.87%	0.73%	0.87%	**0.78%**
	External Management	0.60%	0.66%	0.75%	0.79%	0.63%	**0.69%**
		2012	2013	2014	2015	2016E [(1)]	Average
OpEx as % of Avg Equity	ANNALY	1.45%	1.66%	1.61%	1.58%	1.67%	**1.60%**
	Internal Management	2.72%	3.83%	4.13%	3.84%	3.11%	**3.53%**
	External Management	2.20%	3.06%	3.57%	3.75%	3.71%	**3.26%**

Source: Company Filings, SNL and Bloomberg. Averages are market weighted based on market capitalization as of December 31 of each respective year, except 2016E which is as of September 30, 2016.
Note: Internal Management and External Management represent the respective internally- and externally-managed members of the BBREMTG Index with market capitalization above $200mm as of the corresponding year end. Excludes Annaly and companies during years in which they became public or first listed. Operating Expense is defined as: (i) for Internally-Managed Peers, the sum of compensation & benefits, general & administrative expenses and other operating expenses, and (ii) for Externally-Managed Peers, the sum of net management fees, compensation & benefits (if any), general & administrative expenses and other operating expenses.
(1) 2016E represents annualized operating expenses as of June 30, 2016. Average Assets and Average Equity are as of June 30, 2016.

Annaly's Performance vs. Other Yield Investments

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



Source: Bloomberg. mREITs represent the Bloomberg mREIT Index. Utilities represent the Russell 3000 Utilities Index. MLPs represent the Alerian MLP Index. Asset Managers represent the S&P 500 Asset Management and Custody Bank Index. Banks represent the KBW Bank Index.
Note: Market data from December 31, 2013 to September 30, 2016.

Market Positioning

Post-Crisis Regulation Has Had a Meaningful Impact on Banks…

Regulation

Capital
- Common Equity Tier 1 (CET1)
- Supplementary Leverage Ratio (SLR)

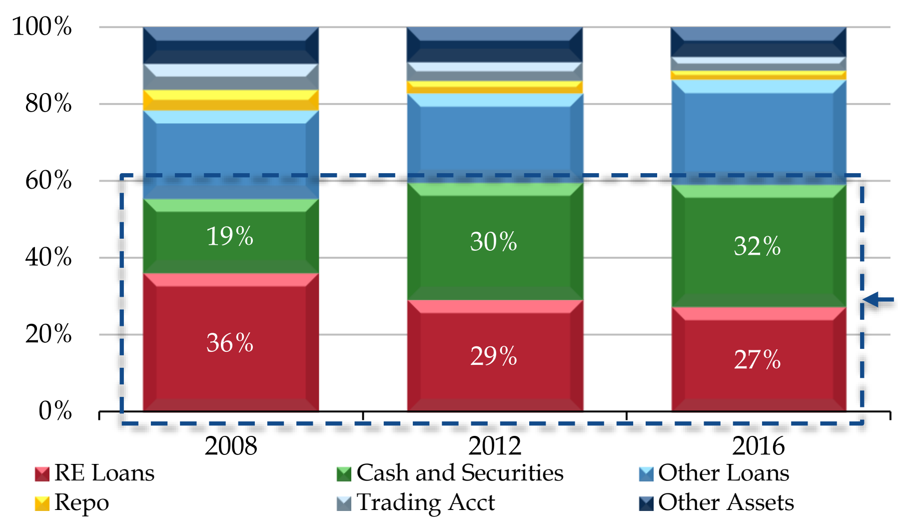
Liquidity
- Liquidity Coverage Ratio (LCR)
- Net Stable Funding Ratio (NSFR)

Resolution
- Total Loss Absorbing Capacity (TLAC)

Key Takeaways

- Current regulatory climate has forced fundamental changes to banks' business models
  - Asset management, advisory, electronic trading, payments and clearing business are more attractive
  - Non-agency MBS, credit products, mortgage servicing and prime brokerage are less desirable businesses
- Regulations force banks to remain ultra liquid; real estate loans have been sacrificed in order to hold more cash and securities

US Bank Assets by Category



This secular trend has created a need for dedicated permanent capital to fill the void

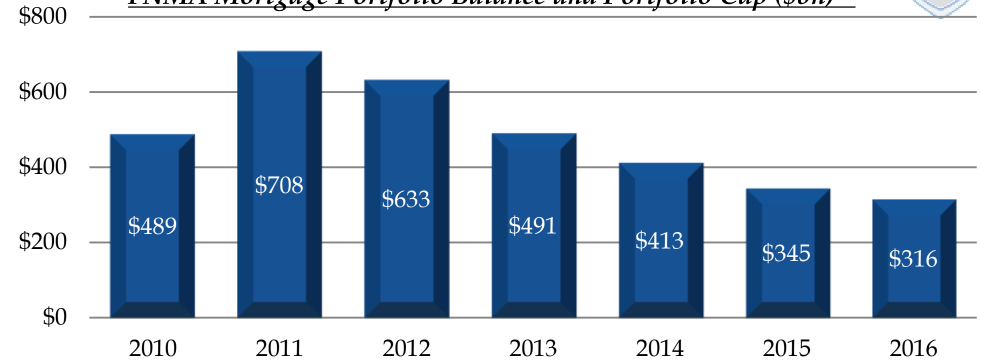
Source: FDIC.

…And Annaly is Well Positioned for the New Regulatory Environment

Residential Credit

- GSEs continue to shrink their portfolios by mandate
- Given punitive capital charges, banks have bought merely 3% of the almost $20 billion shed by Fannie Mae in the form of risk sharing transactions since 2013
- REITs as private capital vehicles have capitalized on these transactions

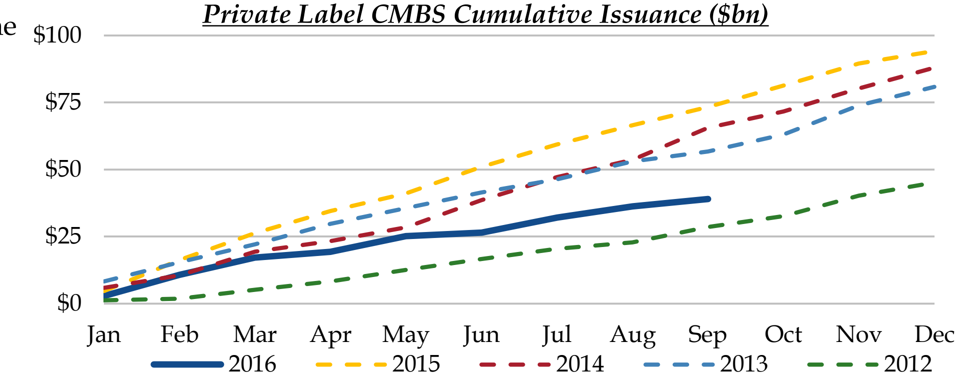
FNMA Mortgage Portfolio Balance and Portfolio Cap ($bn)[1]



Commercial Real Estate

- Risk retention, bank capital standards and the maturity wall all pose challenges to the current CMBS landscape
  - Notably, risk retention rules requiring CMBS sponsors to retain 5% of a securitization for five years takes effect at the end of the year
- This regulatory environment is in effect driving origination efforts away from traditional CMBS lenders

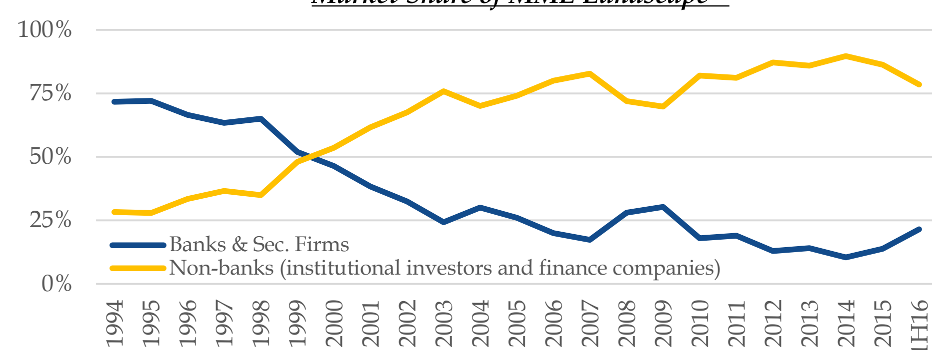
Private Label CMBS Cumulative Issuance ($bn)



Middle Market Lending

- Regulatory focus on the underwriting of leveraged loans has led to the migration of market share away from traditional banks and toward specialty lenders with expertise in the asset class
- Specifically, Basel III and Dodd-Frank have opened the doors for institutional investors by making it difficult for banks to invest in the middle market

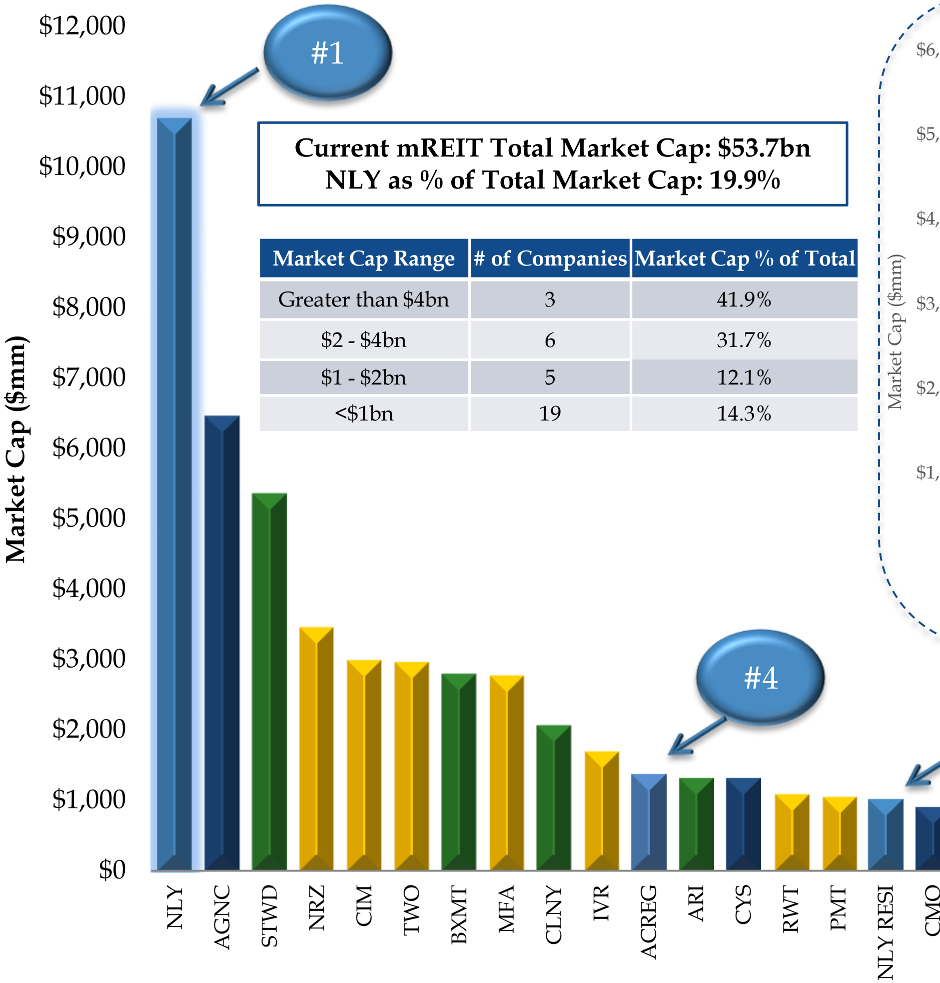
Market Share of MML Landscape[2]



(1) Sources: Federal Reserve Bank of New York, Fannie Mae, Freddie Mac, Nomura.
(2) Sources: S&P Capital IQ Leveraged Commentary (S&P LCD). As of June 30, 2016.

Annaly's Diversification Strategy Now Has Scale and Impact

As Annaly has continued its diversification effort across asset classes, the credit-focused business lines are now of meaningful size in their respective industries

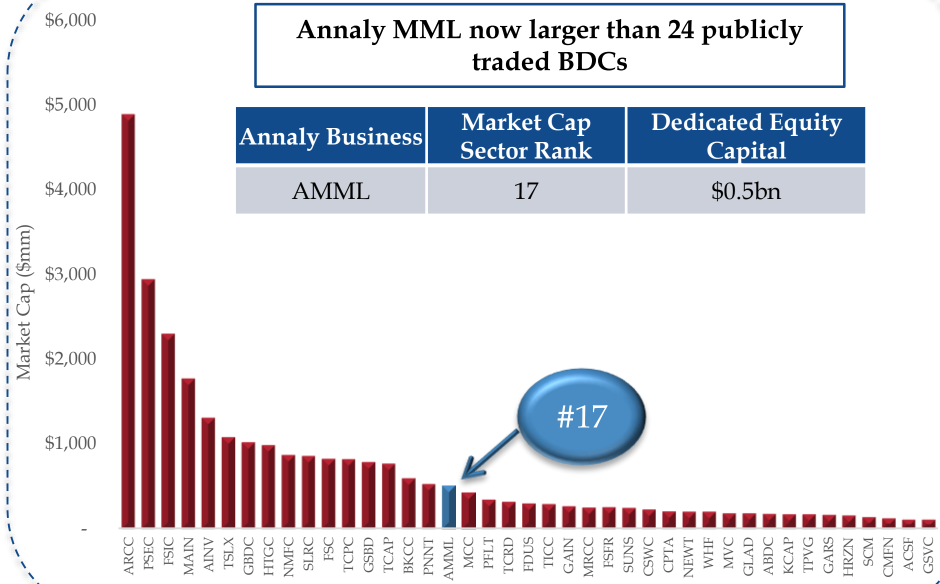


Current mREIT Total Market Cap: $53.7bn
NLY as % of Total Market Cap: 19.9%

Market Cap Range	# of Companies	Market Cap % of Total
Greater than $4bn	3	41.9%
$2 - $4bn	6	31.7%
$1 - $2bn	5	12.1%
<$1bn	19	14.3%

Annaly MML now larger than 24 publicly traded BDCs

Annaly Business	Market Cap Sector Rank	Dedicated Equity Capital
AMML	17	$0.5bn



Source: Bloomberg mREIT Index (BBREMTG Index). Data as of September 30, 2016. Excludes targets of announced acquisitions. Market cap rank represents rank among respective sector.
Note: For purposes of bar graph, light blue bars denote Annaly, dark blue bars denote agency peers, yellow bars denote hybrid peers, green bars denote commercial peers and red bars denotes MML peers. Blue ovals indicate sector ranking, which compares Annaly's dedicated equity capital in each of its business strategies (Agency, CRE, Residential Credit and MML) as of September 30, 2016, adjusted for the relevant sector average price to book multiple to the market capitalization of the companies in each respective sector as of September 30, 2016. Comparative sectors include the BBREMTG Index for Agency, ACREG and Residential Credit and the S&P BDC Index for MML.

Sum of the Parts Capital Diversification

Annaly is positioned as a permanent capital solution for the redistribution of MBS, residential credit, commercial real estate assets and institutional loans

	Agency	Commercial Real Estate	Residential Credit	Middle Market Lending
$ Amount / % of Total Capital(1)	$10.6bn / 78%	$1.4bn / 10%(2)	$1.0bn / 8%	$0.5bn / 4%
Assets	▪ Spec Pools ▪ ARMs ▪ MSR	▪ 1st Mortgages ▪ Mezzanine/Pref. Equity ▪ CRE Equity ▪ CMBS	▪ CRT ▪ NPL/RPL ▪ Legacy ▪ Whole Loans	▪ First Lien ▪ Second Lien
Hedges	▪ Swaps ▪ Euro Dollar Futures ▪ Treasuries ▪ IO / MSR	-	-	-
Financing	▪ Repo ▪ RCap Securities ▪ FHLB	▪ Securitization ▪ Credit Facilities ▪ 1st Mortgages ▪ Note Sales ▪ FHLB	▪ Repo ▪ FHLB	▪ Credit Facilities
Liquidity	Very Liquid	Low to Moderate	Liquid	Moderate
Income Stability	Fluctuates	Fairly Stable	Fluctuates	Fairly Stable
Book Value Impact	Higher	Low to Moderate	Higher	Low
Levered Return	9-10%	9-10%	10-11%	10-11%

Note: Financial data is as of September 30, 2016. Financial data is unaudited.
(1) Dedicated capital excludes non-portfolio related activity and varies from total stockholders' equity.
(2) Includes loans held for sale.

Q3 2016 Business Update

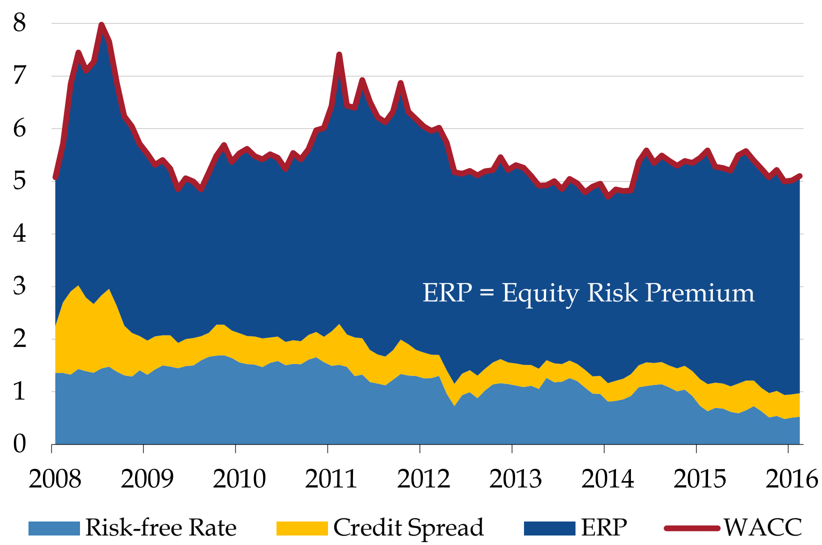
Macro Economic & Interest Rate Market Outlook

Yields are rising off lows amid changing perceptions around fiscal stimulus/ Central Bank policy

- Low growth has led to an increased focus on implementing structural reforms given apparent limits to monetary policy accommodation
- After reaching long-term lows, yields have risen and yield curves have steepened amid a convergence of factors including: fiscal stimulus talk, rising inflation expectations, monetary policy addressing yield curve slope, declining neutral policy rates, shifting investor positioning

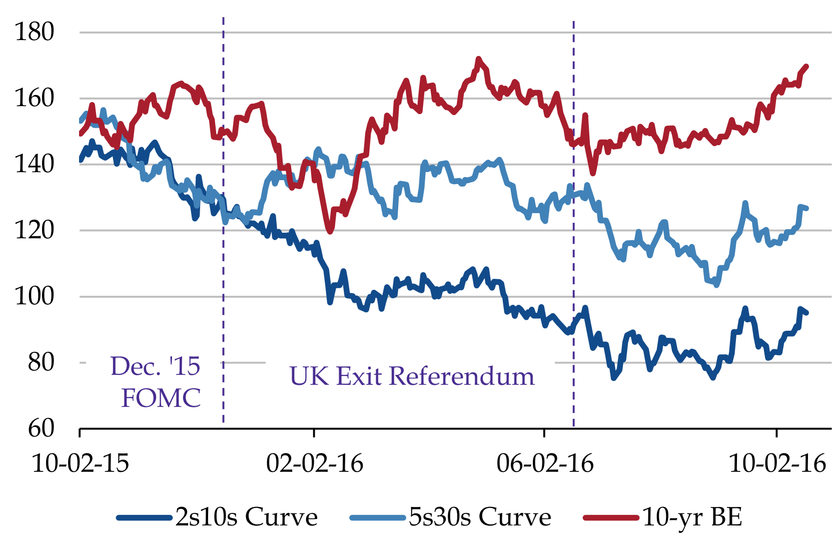
Company Financing Costs Are Little Changed in Recent Years Despite QE

Contribution to the S&P 500 WACC(1), %



Curves and Inflation Breakevens Have Trended Wider Since Early July

Yield Curve Slope and Inflation Breakevens, bps



Source: Bloomberg, JP Morgan, Damodaran Online Blog, Annaly Capital Calculations.

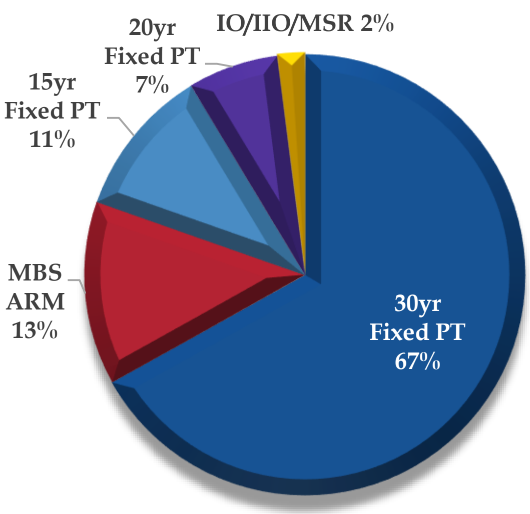
(1) Estimate of S&P 500 members' weighted average cost of capital: Risk-free rate = U.S. 10-year, Credit Spread = JP Morgan JULI A Index Portfolio Spread over Treasuries, ERP as estimated by Aswath Damodaran of NYU Stern, Areas represent their contribution to the aggregate WACC using 33% debt financing assumption.

Agency MBS Portfolio

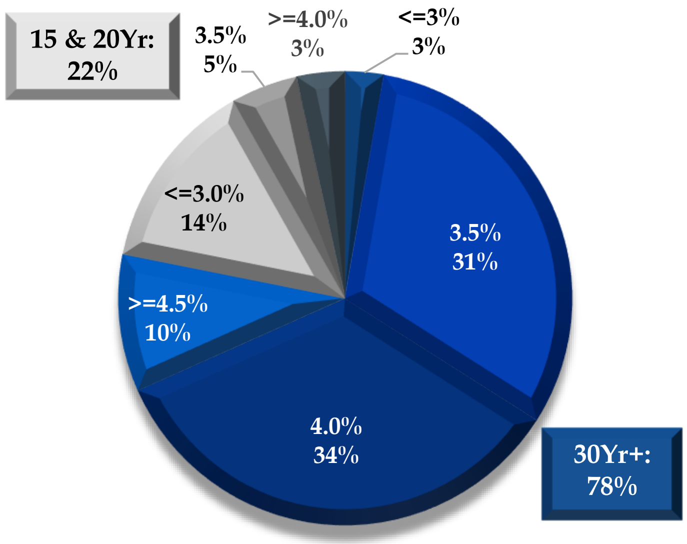
- As of Q3 2016, the market value of the Agency portfolio was approximately $91 billion in assets, inclusive of the TBA position
- Approximately 94% of the Agency portfolio is positioned in securities with prepayment protection
- Agency MBS performed well in Q3 given declining interest rate volatility and strong demand amid the global search for yield
- Strategy has continued to focus on rotation into Agency MBS with durable and stable cash flows

Total Dedicated Capital: $10.6bn

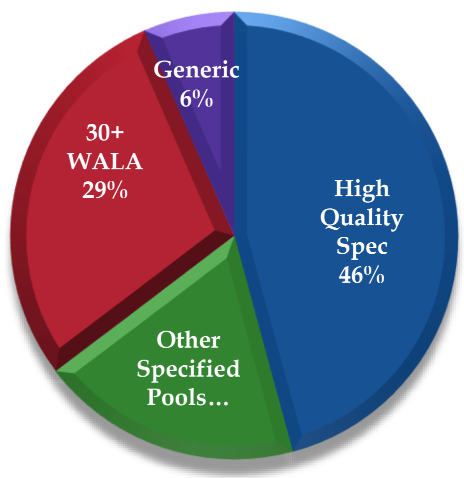
Asset Type(1)



Pass Through Coupon Type



Call Protection(2)



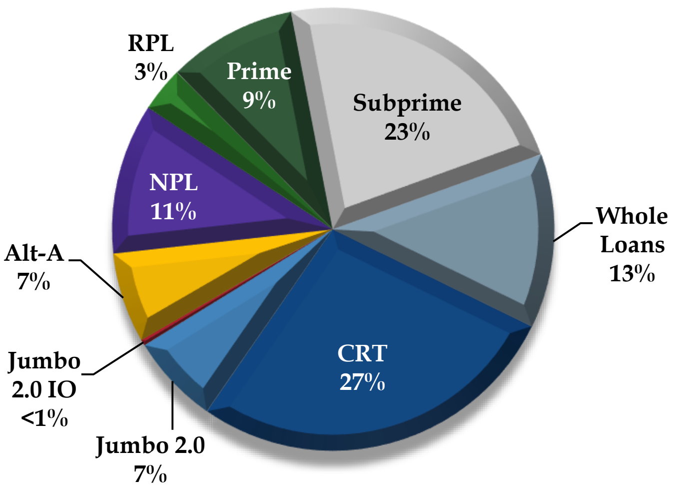
Note: Data as of September 30, 2016. Percentages based on fair market value and may not sum to 100% due to rounding.
(1) Asset type is inclusive of TBA contracts.
(2) "High Quality Spec" protection is defined as pools backed by original loan balances of up to $150K, higher LTV pools (CR/CQ), geographic concentrations (NY/PR). "Other Specified Pools" includes $175K loan balance, high LTV pools, FICO < 700. "30+ WALA" is defined as weighted average loan age greater than 30 years.

Residential Credit Portfolio

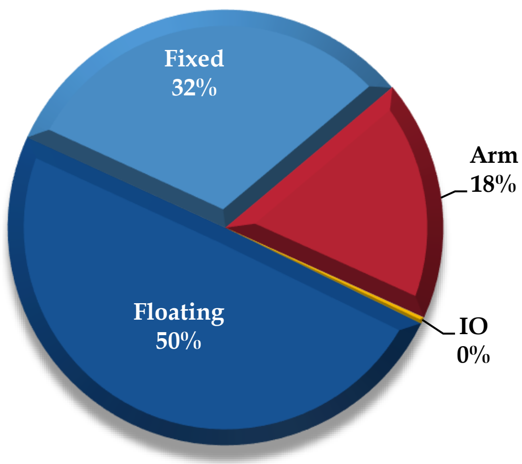
- As of Q3 2016, the portfolio grew to $2.4 billion in assets and is comprised of the following sectors:
  - **Credit Risk Transfer (CRT):** Expect liquidity to continue to improve as more investors enter the sector; CRT is now the most efficient way to express long credit views on residential credit
  - **Jumbo "AAA" Securities:** Scarcity of "AAA" residential credit product and muted prepayments have caused the sector to trade at the tightest levels since 2013
  - **NPL/RPL Securities:** Unrated senior yields have tightened to 3.50% from increased institutional demand
  - **Legacy:** Market continues to be supported by long term positive technicals and continued strong fundamental performance
  - **Whole Loans**: Opportunities exist in new origination whole loans driven by FHLB funding

Total Dedicated Capital: $1.0bn

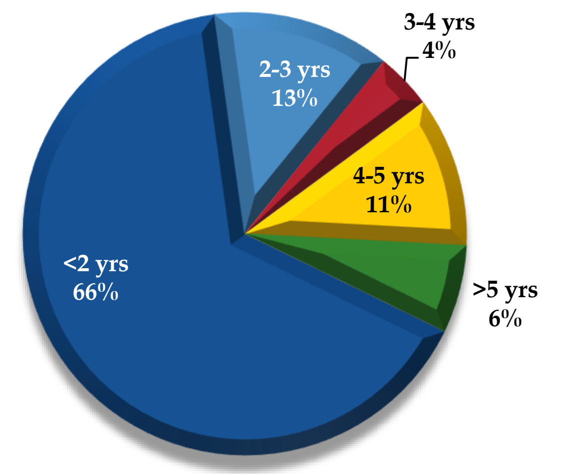
Sector Type



Coupon Type



Effective Duration



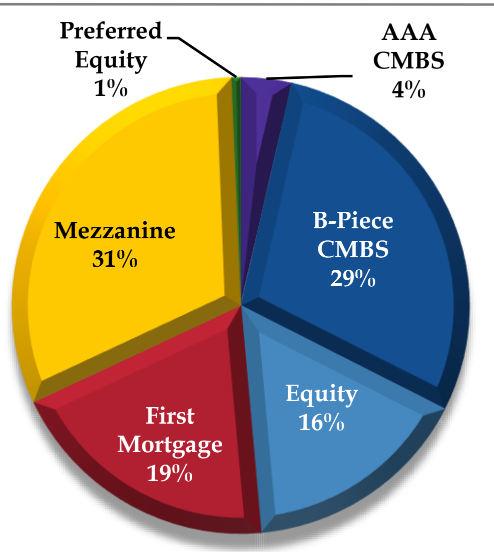
Note: Data as of September 30, 2016. Percentages based on fair market value and may not sum to 100% due to rounding. Whole loan composition includes loans in a securitization entity required to be consolidated under US GAAP.

Commercial Real Estate Portfolio

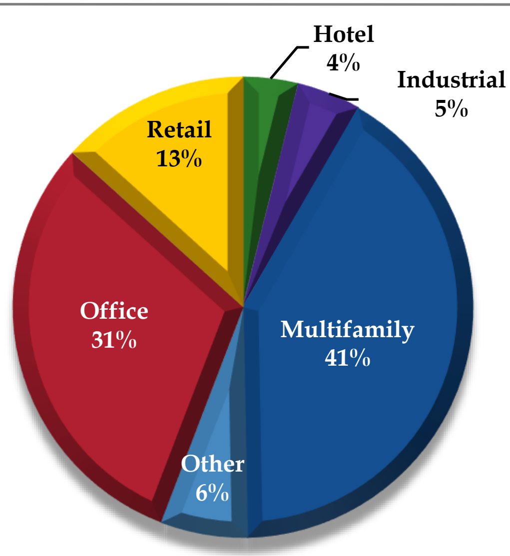
- As of Q3 2016, the commercial real estate portfolio was approximately $2.4 billion in assets[(1)]
- The combination of a significant decline in new acquisition activity by sponsors, a volatile marketplace and a cautious stance on credit has resulted in a decrease in new originations in 2016
  - $365 million of new originations/purchases in 2016
- Increased financing capacity under the existing credit facility to $350 million in Q2
  - $295 million funded under the facility at the end of Q3 2016
- Active pipeline with quality opportunities, but will remain disciplined
  - Portfolio will only grow with the right risk-adjusted opportunities

Total Dedicated Capital: $1.4bn

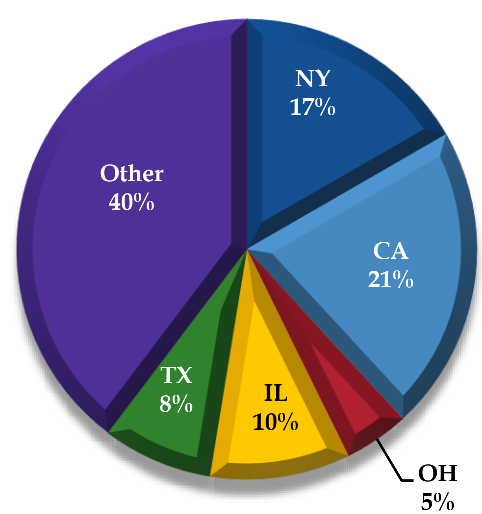
Asset Type



Sector Type



Geographic Concentration[(2)]



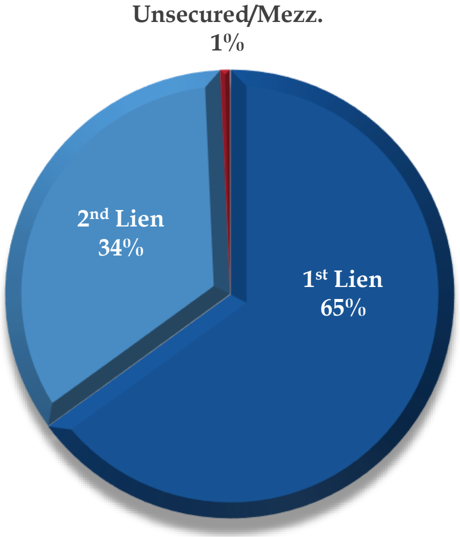
Note: Data as of September 30, 2016. Percentages based on economic interest and may not sum to 100% due to rounding.
(1) Commercial Real Estate assets are exclusive of consolidated variable interest entities ("VIEs") associated with B Piece commercial mortgage-backed securities.
(2) Other includes 24 states, none of which represent more than 5% of total portfolio value.

Middle Market Lending Portfolio

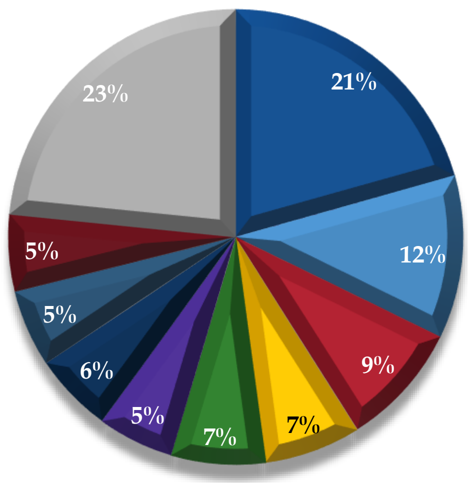
- As of Q3 2016, the middle market lending portfolio grew to over $700 million in assets
- A combination of repeat sponsor business, sectors of origination focus and larger ownership positions resulted in increased new deal origination during Q3 2016
- Unlevered portfolio yield of 7.7% at the end of Q3 2016
- Closed $300 million credit facility in Q2 2016
  - $212 million funded under the facility at the end of Q3 2016

Total Dedicated Capital: $0.5bn

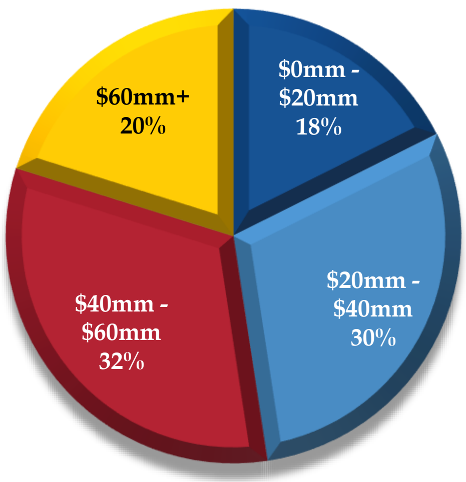
Lien Position



Industry(1)



Loan Size(2)



Note: Data as of September 30, 2016 unless otherwise noted. Percentages based on principal outstanding and may not sum to 100% due to rounding.
(1) Based on Moody's industry categories.
(2) Breakdown based on aggregate $ amount of individual investments made within the respective loan size buckets. Multiple investment positions with a single obligor shown as one individual investment.

Performance Highlights and Trends

Unaudited, dollars in thousands except per share amounts

	For the quarters ended				
	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015
GAAP earnings per common share	$0.70	($0.32)	($0.96)	$0.69	($0.68)
Core earnings per common share*(1)	$0.29	$0.29	$0.30	$0.31	$0.30
Dividends declared per common share	$0.30	$0.30	$0.30	$0.30	$0.30
Common stock book value per share	$11.83	$11.50	$11.61	$11.73	$11.99
Annualized return on average equity	23.55%	(9.60%)	(29.47%)	22.15%	(20.18%)
Annualized core return on average equity*	10.09%	9.73%	9.91%	10.30%	9.67%
Net interest margin	1.40%	1.15%	0.79%	1.80%	1.27%
Core net interest margin*	1.42%	1.54%	1.54%	1.71%	1.65%
Agency mortgage-backed securities and debentures	$73,476,105	$64,862,992	$65,596,859	$65,870,262	$66,219,755
Mortgage servicing rights	492,169	-	-	-	-
Residential credit portfolio (2)	2,439,704	1,717,870	1,658,674	1,363,232	820,764
Commercial real estate investments (3)	6,033,576	6,168,723	6,385,579	5,075,191	4,976,251
Corporate debt	716,831	669,612	639,481	488,508	424,974
Total residential investment securities and commercial investment portfolio	$83,158,385	$73,419,197	$74,280,593	$72,797,193	$72,441,744
Leverage, at period end (4)	5.3x	5.3x	5.3x	5.1x	4.8x
Economic leverage, at period end (5)	6.1x	6.1x	6.2x	6.0x	5.8x
Credit portfolio as a percentage of stockholders' equity (6)	22%	24%	25%	23%	22%

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

(1) Core earnings is defined as net income (loss) excluding gains or losses on disposals of investments and termination of interest rate swaps, unrealized gains or losses on interest rate swaps and investments measured at fair value through earnings, net gains and losses on trading assets, impairment losses, net income (loss) attributable to noncontrolling interest, the premium amortization adjustment resulting from the quarter-over-quarter change in estimated long-term CPR, corporate acquisition related expenses and certain other non-recurring gains or losses, and inclusive of dollar roll income (a component of Net gains (losses) on trading assets) and realized amortization of MSRs (a component of Net unrealized gains (losses) on investments measured at fair value through earnings).

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

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

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

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

(6) Represents credit risk transfer 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 Reconciliation

Non-GAAP Reconciliations

Unaudited, dollars in thousands except per share amounts

	For the quarters ended									
	Sept. 30, 2016	June 30, 2016	Mar. 31, 2016	Dec. 31, 2015	Sept. 30, 2015	June 30, 2015	Mar. 31, 2015	Dec. 31, 2014	Sept. 30, 2014	June 30, 2014
GAAP to Core Reconciliation										
GAAP net income (loss)	$730,880	($278,497)	($868,080)	$669,666	($627,491)	$900,071	($476,499)	($658,272)	$354,856	($335,512)
Less:										
Realized (gains) losses on termination of interest rate swaps	(1,337)	60,064	-	-	-	-	226,462	-	-	772,491
Unrealized (gains) losses on interest rate swaps	(256,462)	373,220	1,031,720	(463,126)	822,585	(700,792)	466,202	873,468	(98,593)	(175,062)
Net (gains) losses on disposal of investments	(14,447)	(12,535)	1,675	7,259	7,943	(3,833)	(62,356)	(3,420)	(4,693)	(5,893)
Net (gains) losses on trading assets	(162,981)	(81,880)	(125,189)	(42,584)	(108,175)	114,230	6,906	57,454	(4,676)	46,489
Net unrealized (gains) losses on investments measured at fair value through earnings	(29,675)	54,154	(128)	62,703	24,501	(17,581)	33,546	29,520	37,944	(2,085)
Bargain purchase gain	(72,576)	-	-	-	-	-	-	-	-	-
Impairment of goodwill	-	-	-	-	-	22,966	-	-	-	-
Other non-recurring expense	46,724	2,163	-	-	-	-	-	-	23,783	-
Net (income) loss attributable to non-controlling interests	336	385	162	373	197	149	90	196	-	-
Premium amortization adjustment cost (benefit)	3,891	85,583	168,408	(18,072)	83,136	(79,582)	87,883	31,695	25,992	(4,279)
Plus:										
TBA dollar roll income	90,174	79,519	83,189	94,914	98,041	95,845	59,731	-	-	-
MSR amortization	(21,634)	-	-	-	-	-	-	-	-	-
Core earnings	$312,893	$282,176	$291,757	$311,133	$300,737	$331,473	$341,965	$330,641	$334,613	$296,149
GAAP net income (loss) per average common share	$0.70	($0.32)	($0.96)	$0.69	($0.68)	$0.93	($0.52)	($0.71)	$0.36	($0.37)
Core earnings per average common share	$0.29	$0.29	$0.30	$0.31	$0.30	$0.33	$0.34	$0.33	$0.33	$0.29
Premium Amortization Reconciliation										
Premium amortization expense	$213,241	$265,475	$355,671	$159,720	$255,123	$94,037	$284,777	$198,041	$197,709	$149,641
Less:										
Premium amortization adjustment cost (benefit)	3,891	85,583	168,408	(18,072)	83,136	(79,582)	87,883	31,695	25,992	(4,279)
Premium amortization expense exclusive of premium amortization adjustment	$209,350	$179,892	$187,263	$177,792	$171,987	$173,619	$196,894	$166,346	$171,717	$153,920

Non-GAAP Reconciliations *(Cont'd)*

Unaudited, dollars in thousands except per share amounts

	For the quarters ended									
	Sept. 30, 2016	June 30, 2016	Mar. 31, 2016	Dec. 31, 2015	Sept. 30, 2015	June 30, 2015	Mar. 31, 2015	Dec. 31, 2014	Sept. 30, 2014	June 30, 2014
Core Interest Income Reconciliation										
Total interest income	$558,668	$457,118	$388,143	$576,580	$450,726	$624,277	$519,114	$648,088	$644,579	$683,883
Premium amortization adjustment cost (benefit)	3,891	85,583	168,408	(18,072)	83,136	(79,582)	87,883	31,695	25,992	(4,279)
Core interest income	$562,559	$542,701	$556,551	$558,508	$533,862	$544,695	$606,997	$679,783	$670,571	$679,604
Economic Interest Expense Reconciliation										
GAAP interest expense	$174,154	$152,755	$147,447	$118,807	$110,297	$113,072	$129,420	$134,512	$127,069	$126,107
Add:										
Interest expense on interest rate swaps used to hedge cost of funds	103,100	108,301	123,124	135,267	137,744	139,773	157,332	174,908	169,083	220,934
Economic interest expense	$277,254	$261,056	$270,571	$254,074	$248,041	$252,845	$286,752	$309,420	$296,152	$347,041
Economic Core Net Interest Income Reconciliation										
Core interest income	$562,559	$542,701	$556,551	$558,508	$533,862	$544,695	$606,997	$679,783	$670,571	$679,604
Less:										
Economic interest expense	277,254	261,056	270,571	254,074	248,041	252,845	286,752	309,420	296,152	347,041
Economic core net interest income	$285,305	$281,645	$285,980	$304,434	$285,821	$291,850	$320,245	$370,363	$374,419	$332,563
Economic Core Metrics										
Core interest income	$562,559	$542,701	$556,551	$558,508	$533,862	$544,695	$606,997	$679,783	$670,571	$679,604
Average interest earning assets	$82,695,270	$73,587,753	$74,171,943	$73,178,965	$72,633,314	$75,257,299	$81,896,255	$85,344,889	$84,765,754	$84,345,756
Core average yield on interest earning assets	2.72%	2.95%	3.00%	3.05%	2.94%	2.90%	2.96%	3.19%	3.16%	3.22%
Economic interest expense	$277,254	$261,056	$270,571	$254,074	$248,041	$252,845	$286,752	$309,420	$296,152	$347,041
Average interest bearing liabilities	$70,809,712	$62,049,474	$62,379,695	$60,516,996	$59,984,298	$63,504,983	$70,137,382	$73,233,538	$72,425,009	$71,403,320
Average cost of interest bearing liabilities	1.57%	1.68%	1.73%	1.68%	1.65%	1.59%	1.64%	1.69%	1.64%	1.94%
Core net interest spread	1.15%	1.27%	1.27%	1.37%	1.29%	1.31%	1.32%	1.50%	1.52%	1.28%
Core net interest margin	1.42%	1.54%	1.54%	1.71%	1.65%	1.70%	1.68%	1.74%	1.77%	1.58%