



ANNALY[®]
Onslow Bay Financial LLC
January 2019

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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,” “should,” “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 (“MBS”) 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 (“MSRs”); our ability to consummate any contemplated investment opportunities; changes in government regulations or policy affecting our business; our ability to maintain our qualification as a REIT for U.S. federal income tax purposes; and our ability to maintain our exemption from registration under the Investment Company Act 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 filed with the Securities and Exchange Commission. 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.

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Annaly Capital Management, Inc.

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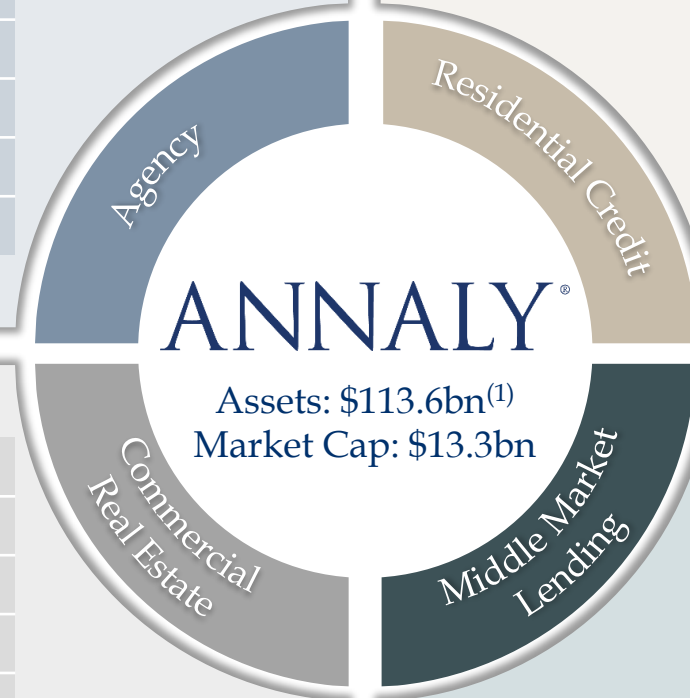
Annaly Is a Leading Diversified Capital Manager

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

Assets ⁽¹⁾	\$106.1bn
Capital ⁽²⁾	\$8.8bn
Sector Rank ⁽³⁾	#1/5
Strategy	Countercyclical / Defensive
Levered Returns ⁽⁴⁾	9%-10%

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

Assets ⁽¹⁾	\$3.2bn
Capital ⁽²⁾	\$1.5bn
Sector Rank ⁽³⁾	#6/17
Strategy	Cyclical / Growth
Levered Returns ⁽⁴⁾	9%-12%



Assets ⁽¹⁾	\$2.7bn
Capital ⁽²⁾	\$1.1bn
Sector Rank ⁽³⁾	#4/12
Strategy	Cyclical / Growth
Levered Returns ⁽⁴⁾	8%-11%

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

Assets	\$1.5bn
Capital ⁽²⁾	\$1.1bn
Sector Rank ⁽³⁾	#10/44
Strategy	Non-Cyclical / Defensive
Levered Returns ⁽⁴⁾	9%-12%

The **Annaly Middle Market Lending Group** provides financing to private equity backed middle market businesses across the capital structure

Third Quarter 2018 Financial Highlights

Earnings & Book Value

Earnings per Share

GAAP Core
\$0.29 | \$0.30
(ex. PAA)*

Book Value Per Share

\$10.03

Dividend per Share

\$0.30

Dividend Yield⁽¹⁾

11.88%

Net Interest Margin

GAAP (ex. PAA)*
1.49% | 1.50%

Return on Equity

GAAP Core
10.73% | 10.85%
(ex. PAA)*

Investment Portfolio

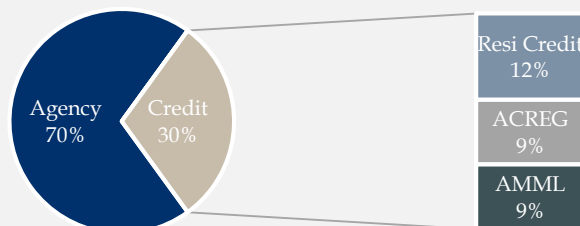
Total Portfolio⁽²⁾

\$113.6bn

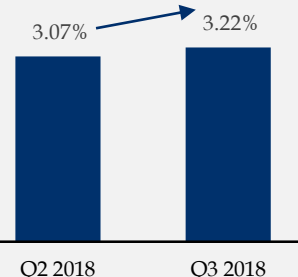
Total Stockholders' Equity

\$14.9bn

Capital Allocation⁽³⁾



Yield on Interest Earning Assets (ex-PAA)*



Financing & Hedging

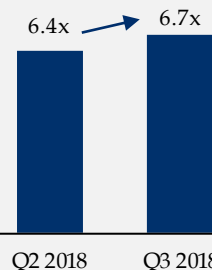
Financing & Liquidity

\$700mm
of facility capacity
added during Q3'18
\$8.4bn
of unencumbered
assets⁽⁴⁾

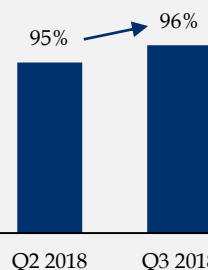
Total Hedge Portfolio

\$96bn
Includes \$71bn of
swaps, \$5bn of
swaptions and
\$20bn of futures

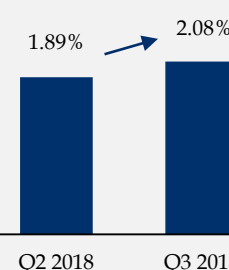
Economic Leverage



Hedge Ratio⁽⁵⁾



Average Cost of Funds⁽⁶⁾

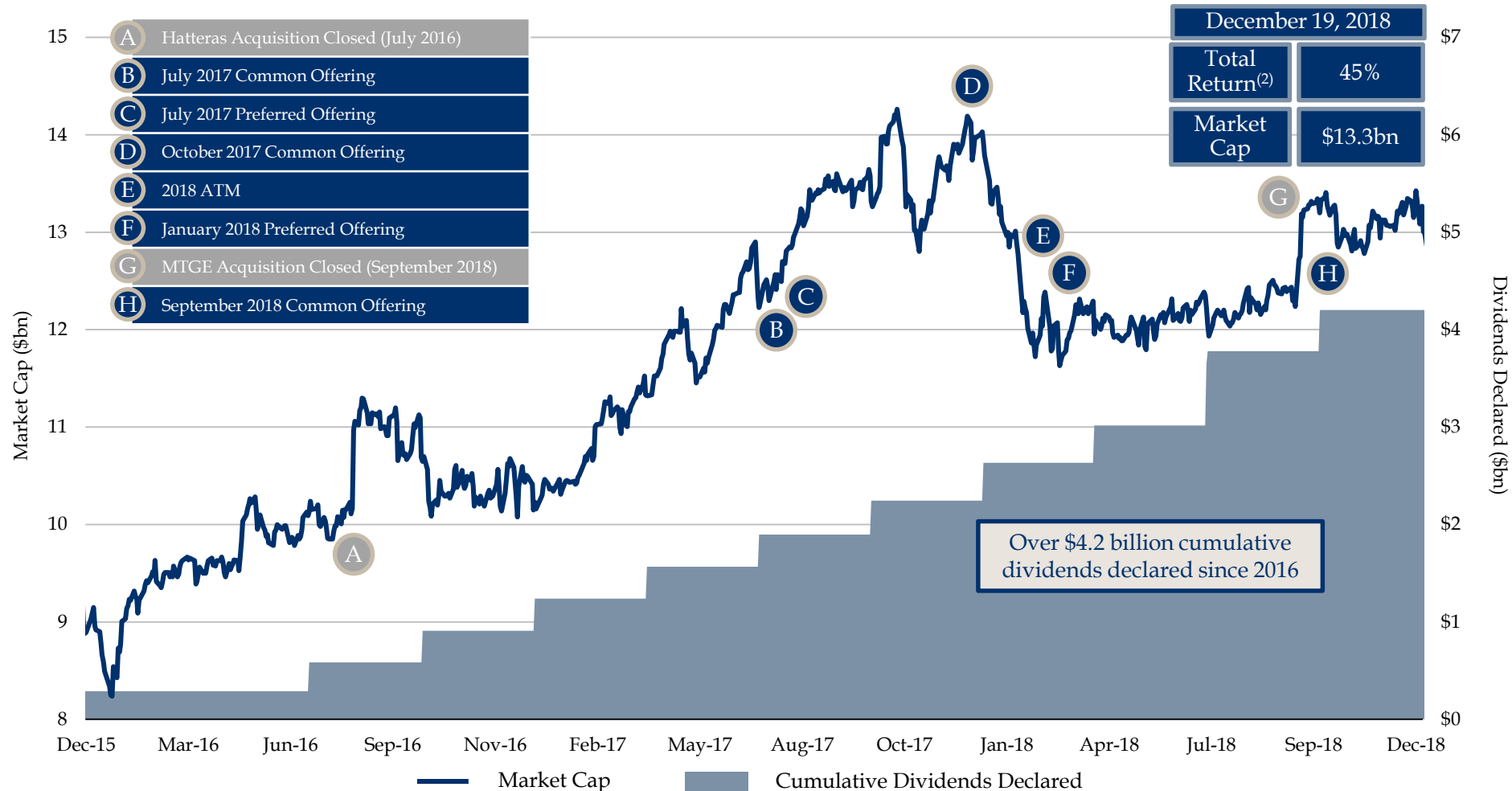


Source: Company filings. Financial data as of September 30, 2018, unless otherwise noted. Market data as of December 19, 2018. * Represents a non-GAAP financial measure; see Appendix. Detailed endnotes and a glossary of defined terms are included at the end of this presentation.

Annaly Advantages | Recent Developments Enhance Size and Scale

Since January 2016, Annaly has grown its market cap by \$4.4 billion, or 49%, through 2 strategic acquisitions and 5 equity offerings⁽¹⁾, while declaring over \$4.2 billion in dividends to shareholders

Annaly Market Capitalization and Cumulative Dividends Declared



Source: Bloomberg and Company filings. Market data shown from December 31, 2015 to December 19, 2018.

Note: Cumulative dividends reflects common and preferred dividends.

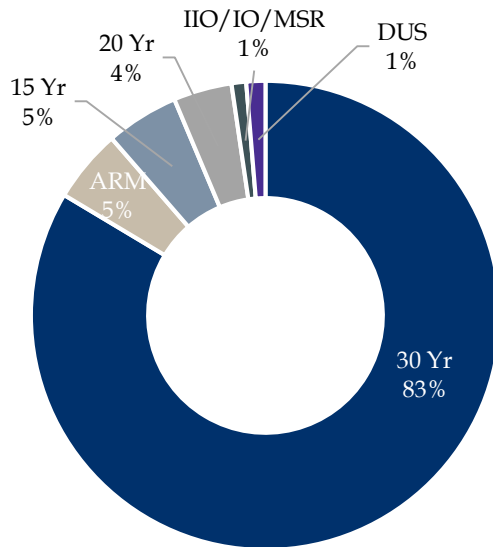
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Agency | Portfolio Summary

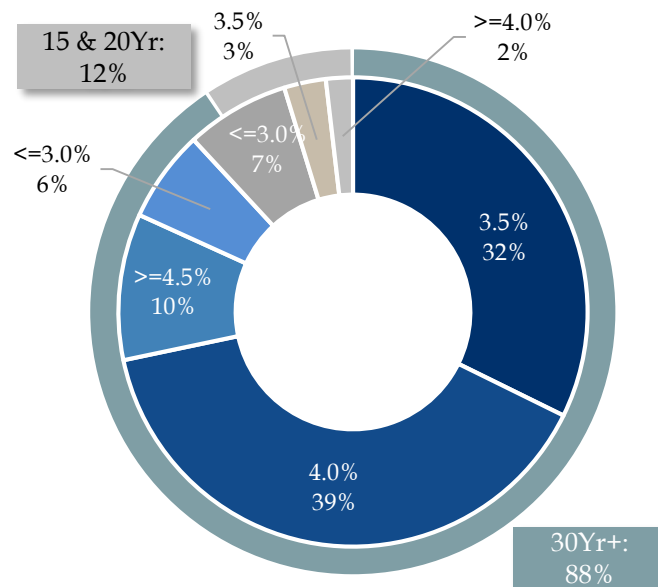
- Agency Portfolio: \$106.1 billion in assets at the end of Q3 2018, an increase of ~11% from Q2 2018⁽¹⁾
- Portfolio increase was driven by onboarding of MTGE assets and outright purchases of specified pools and TBAs
- Mixed Agency MBS performance in Q3 2018 amid the continued rate sell-off
 - While Agency MBS continues to face a challenging supply/demand picture, product fundamentals remain attractive
 - Strong economy supports housing turnover, while a fraction of borrowers have refinancing incentive
- ~85% of the portfolio was positioned in securities with attractive convexity profiles at the end of Q3 2018

Total Dedicated Capital: \$8.8 billion⁽¹⁾

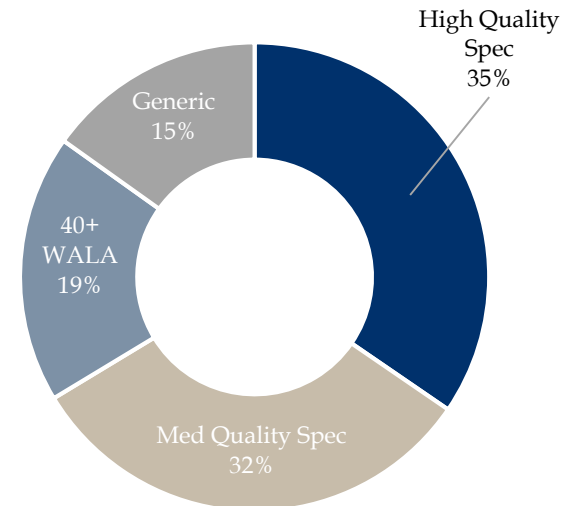
Asset Type⁽¹⁾



Pass Through Coupon Type



Portfolio Quality⁽²⁾



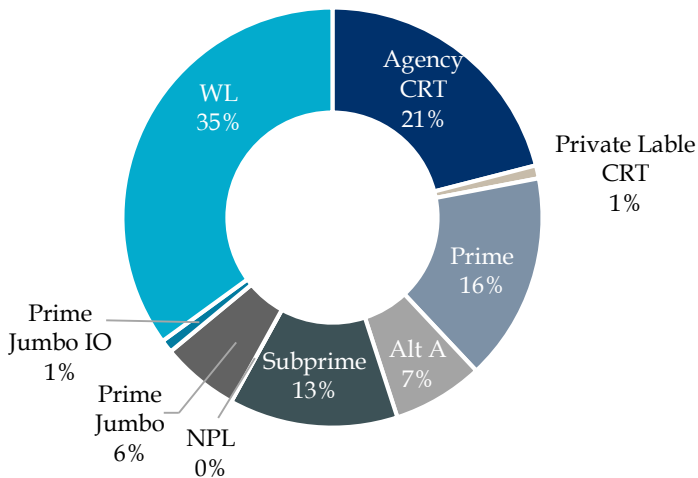
Note: Data as of September 30, 2018. Percentages based on fair market value and may not sum to 100% due to rounding.
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Residential Credit | Portfolio Summary

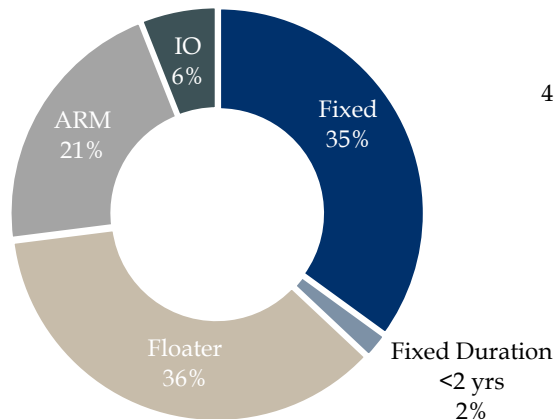
- Residential Credit Portfolio: \$3.2 billion in assets at the end of Q3 2018, an increase of ~13% from Q2 2018
 - Portfolio growth primarily attributable to whole loan purchases coupled with the onboarding of MTGE credit assets
- Closed \$384 million residential whole loan securitization during Q3 2018, representing the second securitization of 2018
- Subsequent to the third quarter, closed on a third securitization of \$384.0 million in October 2018, for an aggregate \$1.1 billion in whole loan securitizations in 2018
 - Plan to continue utilizing securitization execution as a complement to advantageous FHLB financing of the whole loan portfolio – to date, there have been zero realized losses on the \$1.1 billion whole loan portfolio⁽¹⁾⁽²⁾
- Residential Credit continues to perform well, evidenced by spreads tightening across the capital stack during Q3 2018, reversing the widening that occurred at the end of Q2 2018

Total Dedicated Capital: \$1.5 billion

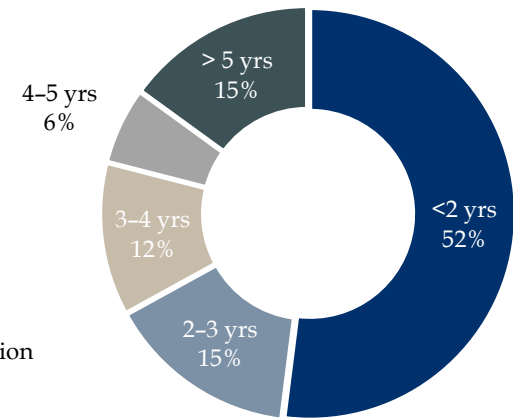
Sector Type⁽²⁾⁽³⁾



Coupon Type⁽²⁾



Effective Duration⁽²⁾



Note: Data as of September 30, 2018, unless otherwise noted. 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.

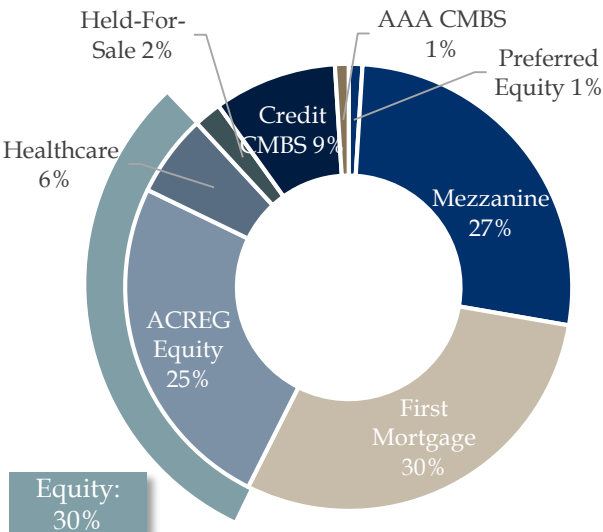
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Commercial Real Estate | Portfolio Summary

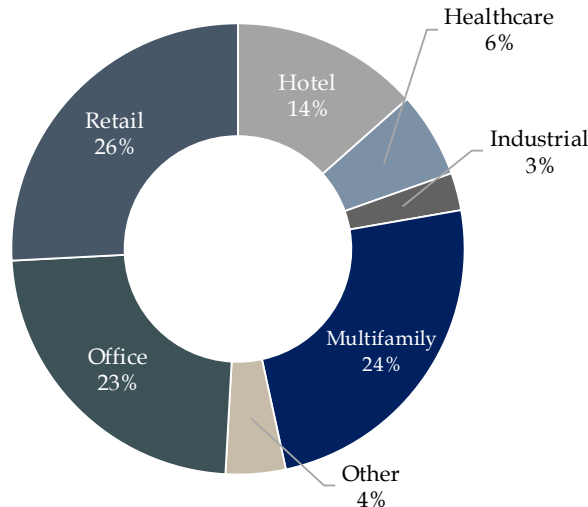
- Commercial Real Estate Portfolio: \$2.7 billion in assets at the end of Q3 2018, an increase of ~19% from Q2 2018
 - Continued to drive portfolio growth through an attractive pipeline despite increasingly competitive credit markets
 - Increased debt originations YTD while improving initial debt yields and LTVs
- 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 Q3 2018
 - \$545 million of new investments⁽¹⁾ with levered yields of ~11%
 - Includes \$278 million of healthcare investments acquired in connection with the MTGE acquisition
 - \$95 million of payoffs / paydowns
- Added additional credit facility counterparties and increased total maximum credit facility capacity during the quarter to provide additional liquidity, lower pricing and debt origination optionality

Total Dedicated Capital: \$1.1 billion

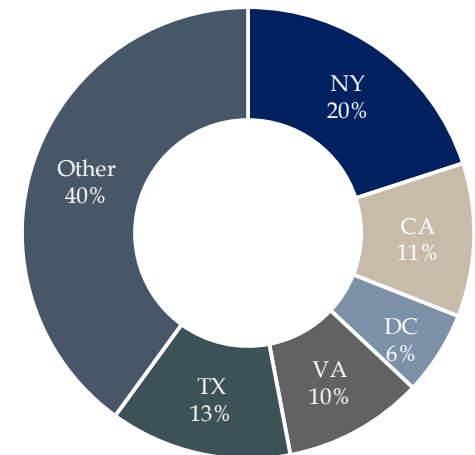
Asset Type⁽²⁾



Sector Type



Geographic Concentration⁽³⁾



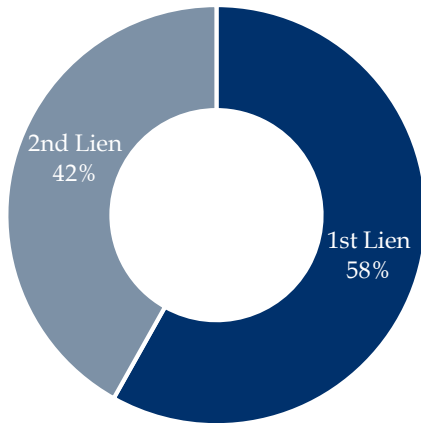
Note: Data as of September 30, 2018. Portfolio statistics and percentages are based on economic interest and excludes consolidated VIE positions. Percentages may not sum to 100% due to rounding. Detailed endnotes and a glossary of defined terms are included at the end of this presentation.

Middle Market Lending | Portfolio Summary

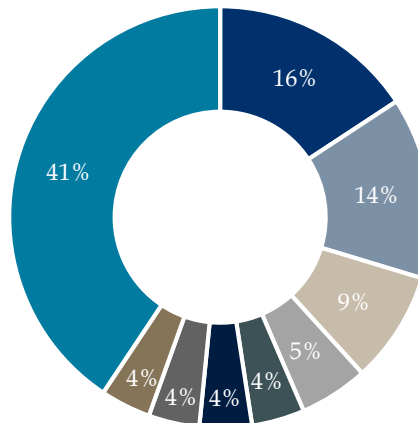
- Middle Market Lending Portfolio: \$1.5 billion in assets at the end of Q3 2018, an increase of ~22% from Q2 2018
- First and second lien portfolio with increased focus on lead arranger opportunities and more concentrated positions
- New investment activity outpaced paydowns during Q3 2018
 - \$259 million of new investments with unlevered yield of ~10%⁽¹⁾
 - \$9 million of paydowns
- Portfolio of 45 borrowers built through long established relationships with a focus on defensive, non-discretionary, niche industries
- Risk rating upgrades represent 24% of portfolio due to net leverage declines
- Improved terms and access to financing through \$100 million upside of existing credit facility

Total Dedicated Capital: \$1.1 billion

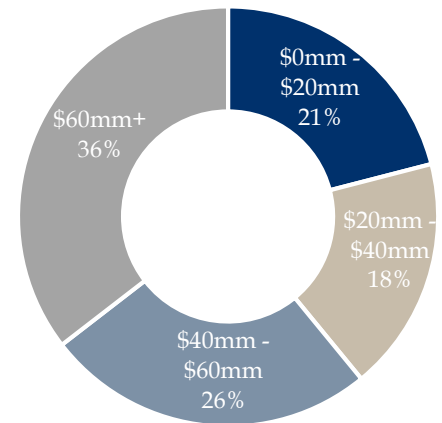
Lien Position



Industry⁽²⁾



Loan Size⁽³⁾



- Management & Public Relations Services
- Manufacturing
- Public Warehousing & Storage
- Offices & Clinics of Doctors
- Other
- Computer Programming & Data Processing
- Engineering, Architectural, and Surveying
- Telephone Communications
- Offices & Clinics of Health Practitioners

Note: Data as of September 30, 2018. Percentages based on amortized cost and may not sum to 100% due to rounding.
Detailed endnotes and a glossary of defined terms are included at the end of this presentation.

Onslow Bay Financial LLC

Onslow Bay Overview

Annaly purchases residential whole loans through Onslow Bay Financial LLC

Corporate Background

- Onslow Bay Financial LLC (“Onslow Bay”) (previously Onslow Bay Servicing LLC) was formed on July 17, 2013
- Onslow Bay was a wholly owned subsidiary of Hatteras Financial Corp. (“Hatteras”). In July of 2016, Hatteras was acquired by Annaly
- In addition to being a HUD approved Investing Mortgagee, Onslow Bay currently holds the requisite state mortgage finance licenses, registrations, or exemptions (collectively, the “mortgage finance approvals”) to purchase residential whole loans in 49 states

Sourcing and Underwriting

- Onslow Bay seeks to purchase closed, funded, performing residential whole loans made to mortgagors with stable incomes and employment histories
- Onslow Bay is not an originator and does not directly service residential whole loans or seek to sell other products / services to borrowers. Onslow Bay purchases loans from select Originators / Aggregators based on agreed-upon underwriting guidelines or carve-outs of the seller’s underwriting guidelines that fit desired documentation requirements or credit characteristics
- Onslow Bay utilizes accredited third party vendors to diligence assets before acquisition, including 100% data, credit, compliance and valuation diligence for new origination loans. Also, a custodian reviews the collateral on every asset before funding

Financing

- Onslow Bay has issued four residential whole loan securitizations to date: OBX 2015-1, OBX 2018-1, OBX 2018-EXP1 and OBX 2018-EXP2
- In addition to utilizing the rated securitization market, Annaly has the ability to utilize FHLB financing (Des Moines)

Loan Due Diligence & Servicer Oversight

100% Full Securitization Diligence

- Onslow Bay utilizes both American Mortgage Consultants (“AMC”) and Clayton Holdings LLC (“Clayton”) to perform independent third party diligence services



- Onslow Bay performs 100% full securitization diligence⁽¹⁾ across Credit, Compliance (RMBS 3.0 TRID Compliance Review) and Valuation

Credit

Adherence to guideline requirements and “Ability to Repay”, confirming income, employment, assets, LTV, credit score, etc.

Compliance

Onslow Bay utilizes RMBS 3.0 TRID Compliance Review. Review of preliminary and final disclosures, federal and state guidelines

Valuation

Onslow Bay orders a secondary valuation to confirm appraisal value

Sub-Servicer Oversight

- Onslow Bay contracts Select Portfolio Servicing (“SPS”) and Specialized Loan Servicing (“SLS”) to sub-service the whole loans which are purchased “servicing released”



- Onslow Bay engages in continuous dialogue with our sub-servicers regarding servicing transfers, delinquencies / loss mitigation in addition to a monthly sub-servicing oversight meeting
- SPS and SLS are both highly rated sub-servicers by the respective rating agencies:
 - SPS is rated “SQ2+” by Moody’s, “RPS1” by Fitch and “Strong” from S&P. As of December 2017, SPS serviced or subserviced approximately 635k mortgage loans with a UPB of \$108.8bn
 - SLS is rated “SQ2” by Moody’s, “RPS2+” by Fitch and “Above Average” from S&P. As of December 2017, SLS serviced or subserviced approximately 483k mortgage loans with a UPB of \$71.8bn

1. Onslow Bay utilizes full securitization diligence (Credit, Compliance, Valuation) for new origination whole loan purchases. For seasoned whole loan purchases, Onslow Bay may diligence Title/Tax/Lien, servicing comments, pay history and updated FICOs/valuations.

Onslow Bay Residential Whole Loan Target Acquisitions

- Onslow Bay seeks to purchase closed, funded, performing residential whole loans made to mortgagors with stable incomes and employment histories
- The summary below is representative of the “Expanded Prime” guidelines Onslow Bay utilizes to purchase whole loans through an originator / aggregator network
- Onslow Bay targets high quality borrowers with significant down payments and reserves

	“Expanded Prime” Acquisition Programs ⁽¹⁾				
	Full Doc (Wage Earner)	Full Doc (Self Employed)	Bank Statement	Asset Utilization	1 Year Tax Return
Income Qualification	2 Years W2, YTD Paystub, 4506-T Transcripts	2 Years Personal / Business Tax Returns, K1s / Schedules, 4506-T 1040 transcripts	12 or 24 Months Consecutive Personal or Business Bank Statements	Borrowers Must Have A Minimum Amount of Qualified Assets	1 Year Personal and Business Tax Returns
Borrower Qualification	Wage Earners	Self-Employed Borrowers	Self Employed Borrowers Only, Minimum of 2 Years Experience	Utilization Draw Schedule, Net Documented Assets	Self Employed Borrowers Only, Minimum of 2 Years Experience
Employment Verification	Verbal Verification of Employment	Verification Through 3rd Party	Business License, CPA Letter, etc.	N/A	Business License, CPA Letter, etc.
Asset Seasoning	2 Months	2 Months	2 Months	>6 Months Seasoning	2 Months
Housing Event Seasoning (FC, SS, Deed in Lieu, BK, Mod)	48 Months	48 Months	48 Months	48 Months	48 Months
Recent Housing History⁽²⁾	0x30x12	0x30x12	0x30x12	0x30x12	0x30x12
Min FICO / Max LTV (Lowest FICO), Purchase / Rate Refi	660/80	660/80	680/65	680/75	680/65
Min FICO / Max LTV (Highest LTV), Purchase / Rate Refi	720/90	720/90	740/85	700/80	740/85
Max DTI	50%	50%	50%	50%	50%

1. Definition of terms as follows: FC - Foreclosure; SS - Short Sale; BK - Bankruptcy; Mod - Modification; FICO - Fair Isaac Credit Score; LTV - Loan to Value Ratio (Loan Size/Property Value); DTI - Debt to Income Ratio.

2. 2 Year seasoning period for any 30 day delinquency.

Onslow Bay Residential Whole Loan Target Acquisitions (*cont'd*)

- Onslow Bay also purchases Prime Jumbo, Agency Eligible Investor and DSCR Investor loans
- The summary below is representative of the guidelines Onslow Bay utilizes to purchase whole loans from our originator / aggregator network
- Onslow Bay targets high quality borrowers with significant down payments and reserves

	Additional Acquisition Programs ⁽¹⁾			
	Prime Jumbo (Wage Earner)	Prime Jumbo (Self Employed)	Agency / AUS Investor (DU/LP)	DSCR Investor
Income Qualification	2 Years W2s or Tax Returns, YTD Paystub	2 Years Personal / Business Tax Returns, K1s / Schedules, 4506-T 1040 transcripts	Full Documentation Per DU/LP	Appraisal Market Rents / Subject Lease
Borrower Qualification	Wage Earners	Self-Employed Borrowers	Wage Earners + Self-Employed Borrowers	1.20x Global DSCR, .75% Primary DSCR
Employment Verification	Verbal Verification of Employment	Verification Through 3 rd Party	Full Employment Verification Per DU/LP	Employment Letter / CPA, Min 2 Years SE
Asset Seasoning	2 Months	2 Months	2 Months	1 Month Seasoning / Explanation of Asset Savings
Housing Event Seasoning (FC, SS, Deed in Lieu, BK, Mod)	7 Years (BK, FC, Deed in Lieu)	7 Years (BK, FC, Deed in Lieu)	7 Years Foreclosure, 4 Years	0x30x24 ⁽³⁾
	4 Years Short Sale, Modification	4 Years Short Sale, Modification	(BK ⁽²⁾ , Deed in Lieu, Charge Off, PreForeclosure)	
Recent Housing History	0x30x24 ⁽³⁾	0x30x24 ⁽³⁾	Housing History Per DU/LP	0x30x24 ⁽³⁾
Min FICO / Max LTV (Lowest FICO), Purchase / Rate Refi	700/80	700/80	660/80 ⁽⁴⁾	680/60
Min FICO / Max LTV (Highest LTV), Purchase / Rate Refi	700/80	700/80	660/80 ⁽⁴⁾	680/60
Max DTI	43%	43%	50% ⁽⁴⁾	N/A

1. Definition of terms as follows: FC - Foreclosure; SS - Short Sale; BK - Bankruptcy; Mod - Modification; FICO - Fair Isaac Credit Score; LTV - Loan to Value Ratio (Loan Size/Property Value); DTI - Debt to Income Ratio.

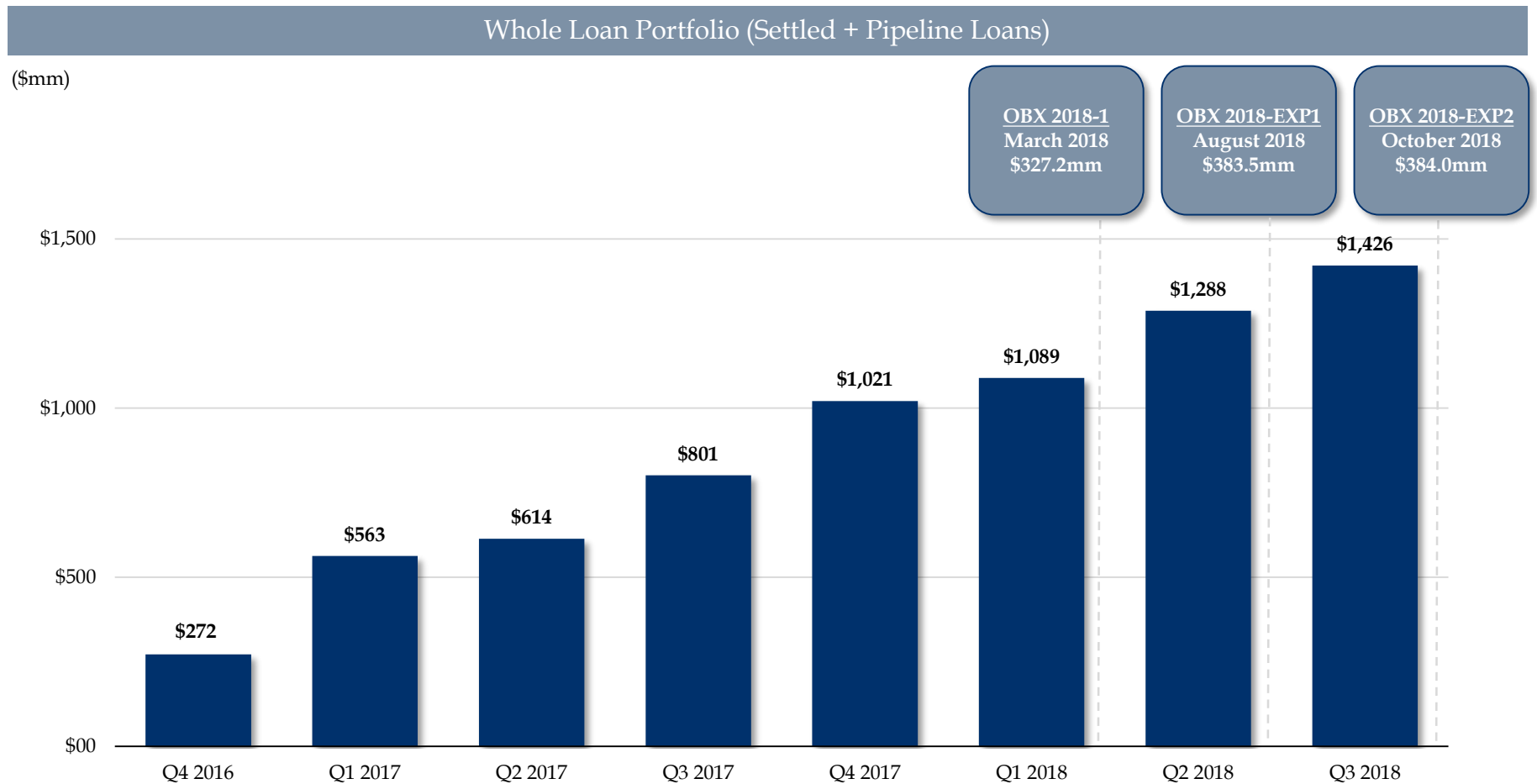
2. 4 Year seasoning period for Chapter 7, Chapter 11 and Chapter 13 Dismissal. 2 Year seasoning period for Chapter 13 Discharge Date.

3. 2 Year seasoning period for any 30 day delinquency.

4. Represent Onslow Bay credit overlays.

Onslow Bay Whole Loan Portfolio

- Annaly's whole loan portfolio has grown over 5x since the end of 2016
- Subject to market conditions, Annaly intends to programmatically utilize the rated securitization market to diversify funding



Source: Company data.

Note: Whole loan portfolio excludes consolidated securitizations. Actual loan balances prior to securitization were \$327.5mm, \$383.9mm and \$384.0mm, respectively.

Onslow Bay Securitizations

	OBX 2015-1	OBX 2018-1	OBX 2018-EXP1	OBX 2018-EXP2
Issue Date	Dec-15	Mar-18	Aug-18	October-18
Collateral Type	Prime Jumbo	Seasoned Prime ARMs	Expanded Prime	Expanded Prime
Source of Collateral	Prime Jumbo	Collapse of 2 Legacy Deals + Seasoned Whole Loan Purchases	Whole Loan Purchases	Whole Loan Purchases
Rating Agencies	S&P / DBRS	Fitch / DBRS	Fitch / KBRA	Fitch / DBRS
Sponsor	Onslow Bay Financial LLC	Onslow Bay Financial LLC	Onslow Bay Financial LLC	Onslow Bay Financial LLC
R&W Framework	D120 Automatic Review	Delinquency Trigger Review	Delinquency Trigger Review	Delinquency Trigger Review
Risk Retention	Pre Risk Retention	Vertical	Horizontal	Horizontal
Original Attachment to "AAA"	8.55%	8.80%	12.65%	13.35%
Deal Balance	\$231,181,631	\$327,161,759	\$383,451,233	\$384,027,255
Pool Factor (11/25 Remittance)	0.45	0.81	0.93	0.98
Average Loan Size	\$767,014	\$354,949	\$664,560	\$636,861
Number of Loans	307	920	577	603
WA Gross Coupon	3.39%	4.00%	4.87%	5.06%
WA Orig CLTV	69	42 ⁽¹⁾	67	67
WA Original FICO	768	749	751	753
WA DTI	33	N/A	35	36
ARM	100.00%	98.00%	50.00%	48.00%
IO	0.00%	4.00%	6.00%	12.00%
Full Doc	100.00%	N/A	68.00%	29.00%
WA Margin	2.25%	2.88%	3.12%	3.19%
WALA	8	124	17	12
Top State	CA 49.00%	CA 43.00%	CA 64.00%	CA 62.00%
Prime Jumbo	100.00%	0.00%	16.40%	15.00%
Expanded Prime	0.00%	0.00%	64.50%	61.30%
Agency / AUS Investor	0.00%	0.00%	15.60%	19.90%
DSCR Investor	0.00%	11.80%	3.50%	3.80%
Seasoned Loans	0.00%	88.20% ⁽²⁾	0.00%	0.00%
3M VPR	19.70%	27.10%	22.20%	N/A
6M VPR	18.80%	26.20%	N/A	N/A
12M VPR	16.70%	N/A	N/A	N/A
60+ Delinquencies	0.48%	0.81% ⁽³⁾	0.00%	0.00%
Cumulative Losses	0.00%	0.00%	0.00%	0.00%

Note: VPRs, 60+ delinquencies and cumulative losses as of the November 25, 2018 remittance period.

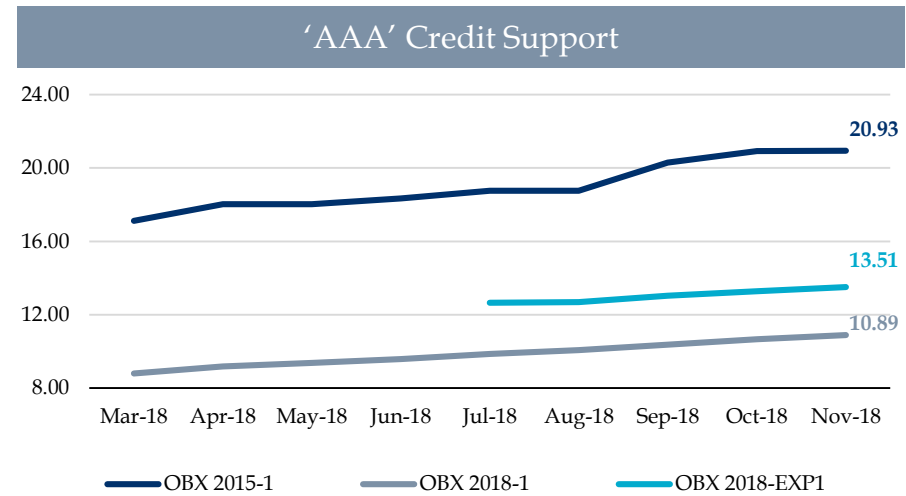
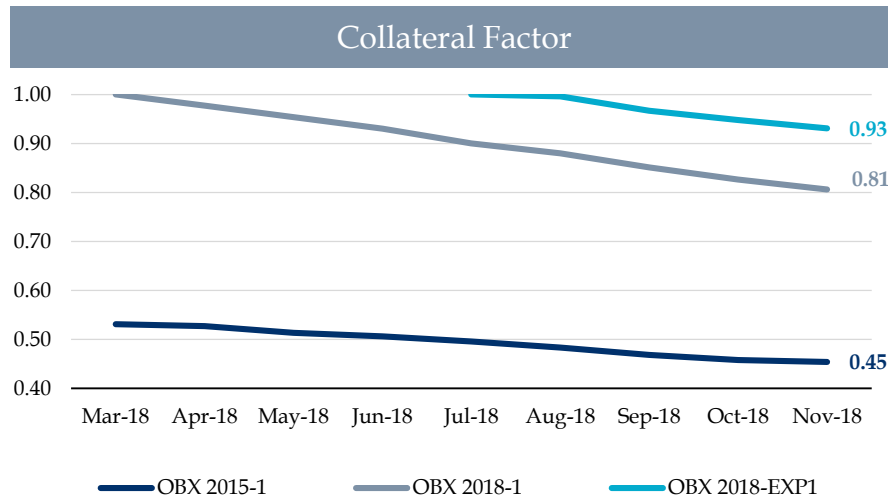
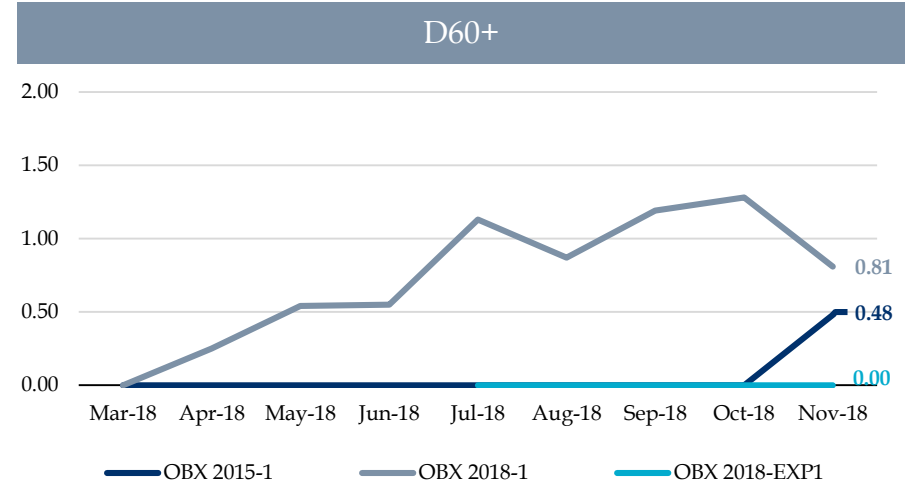
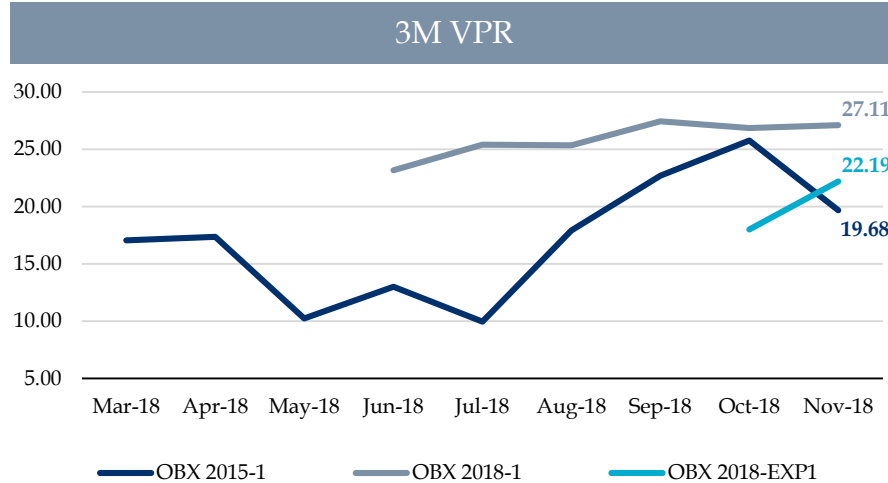
1. Represents updated CLTV.

2. Seasoned collateral consists of loans >24 WALA not underwritten to a DSCR.

3. 60+ delinquencies of loans sourced out of the Onslow Bay portfolio (excluding loans from collapse of legacy securitizations) are 0.34%.

OBX Securitization Performance

OBX securitizations have performed in line with expectations, zero losses to date



Note: As of November 25, 2018 remittance period. OBX 2018-EXP2 excluded since the transaction closed on October 31, 2018 and therefore has limited performance history. Past performance is not indicative of future results.

Onslow Bay Portfolio Performance

- Onslow Bay has purchased approximately \$2.0bn⁽¹⁾ of residential whole loans since Q3 2016, following Annaly's acquisition of Hatteras in Q2 2016
- Performance has been strong as the Onslow Bay portfolio has yet to experience a realized loss or have a loan permanently modified
- Serious delinquencies, as defined by a loan greater than 30 days delinquent (MBA method), have been minimal

Product	Acquisition Year	Loan Status – MBA Method ⁽²⁾									
		Paid Down	Current	30 DQ	60 DQ	90 DQ+	FC	REO	Mod % ⁽³⁾	Liquidations \$	Losses to Date \$
Agency Eligible Investor	2017	14.8%	83.9%	1.3%	-	-	-	-	-	-	-
	2018	2.4%	97.6%	-	-	-	-	-	-	-	-
Jumbo Prime	2015	42.1%	57.2%	0.6%	-	-	-	-	-	-	-
	2016	32.3%	67.7%	-	-	-	-	-	-	-	-
	2017	30.0%	69.2%	0.3%	0.1%	0.5%	-	-	-	-	-
	2018	No Acquisitions									
Expanded Prime	2016	51.9%	48.1%	-	-	-	-	-	-	-	-
	2017	31.8%	66.5%	1.2%	0.1%	0.3%	-	-	-	-	-
	2018	7.2%	92.5%	0.4%	-	-	-	-	-	-	-

Portfolio Description	GWAC	1M VPR	3M VPR	6M VPR	12M VPR	Lifetime VPR
Agency Eligible Investor	4.79	13.2%	11.8%	12.6%	12.7%	12.7%
Expanded Prime Fixed	5.26	6.9%	16.7%	19.9%	24.5%	26.0%
Expanded Prime ARM	5.09	10.5%	27.5%	24.8%	23.5%	25.7%
Prime Jumbo	3.68	15.3%	14.5%	10.0%	13.1%	15.0%

Note: Prepayments as of Q3 2018. Past performance is not indicative of future results.

1. Whole loan purchase volumes as of September 30, 2018, excluding call rights.

2. Transition Matrix reflects performance as of September 30, 2018. Transition Matrix does not include whole loans purchased through "Legacy" call rights. Past performance is not indicative of future results.

3. Excludes temporary modifications due to natural disasters.

Onslow Bay Agency / AUS Investor Prepayments

Agency Eligible Investor Loans By GWAC

GWAC	GWAC	1M VPR	3M VPR	6M VPR	12M VPR	Lifetime VPR
3.75-4.0%	3.87	0.0%	0.0%	0.0%	0.0%	0.0%
4.0-4.25%	4.08	3.9%	2.6%	3.7%	3.6%	3.6%
4.25-4.5%	4.32	0.1%	0.1%	3.6%	4.6%	4.6%
4.5-5.0%	4.75	15.9%	15.9%	14.7%	13.8%	13.8%
5.0-5.5%	5.18	23.3%	10.0%	15.6%	23.2%	23.2%
5.5-6.0%	5.59	0.0%	0.0%	28.8%	25.5%	25.5%
Grand Total	4.79	13.2%	11.8%	12.6%	12.7%	12.7%

Agency Eligible Investor Loans By Original LTV

Original LTV	GWAC	1M VPR	3M VPR	6M VPR	12M VPR	Lifetime VPR
80-85	4.83	0.6%	0.9%	0.9%	0.9%	0.9%
75-80	4.97	28.8%	11.8%	12.9%	10.5%	10.5%
70-75	4.74	11.6%	13.9%	11.6%	13.5%	13.5%
60-70	4.86	22.7%	15.4%	14.9%	13.2%	13.2%
<=60	4.73	0.8%	4.9%	12.4%	11.8%	11.8%
Grand Total	4.79	13.2%	11.8%	12.6%	12.7%	12.7%

Note: Prepayments as of Q3 2018. Past performance is not indicative of future results.

Onslow Bay Expanded Prime ARM Prepayments

Origination Type	GWAC	1M VPR	3M VPR	6M VPR	12M VPR	Lifetime VPR
Full Doc	5.25	22.4%	31.9%	29.6%	31.5%	38.7%
Alt Doc	5.03	5.5%	25.7%	23.1%	21.1%	21.7%
Grand Total	5.09	10.5%	27.5%	24.8%	23.5%	25.6%

GWAC	GWAC	1M VPR	3M VPR	6M VPR	12M VPR	Lifetime VPR
3.25–3.5%	3.38	0.0%	0.0%	0.0%	0.0%	0.0%
3.50–3.75%	3.50	0.0%	0.0%	0.0%	0.0%	0.0%
3.75–4.0%	3.81	1.1%	1.1%	1.0%	1.0%	0.9%
4.0–4.25%	4.07	0.1%	53.8%	42.7%	30.7%	22.8%
4.25–4.5%	4.33	32.1%	13.2%	22.2%	22.0%	22.2%
4.5–5.0%	4.75	8.9%	28.7%	21.0%	19.8%	20.8%
5.0–5.5%	5.18	16.5%	19.8%	26.0%	25.0%	28.6%
5.5–6.0%	5.72	0.1%	35.2%	28.0%	28.0%	29.4%
6.0–6.5%	6.17	0.5%	10.4%	24.2%	40.2%	57.7%
>=6.5%	6.68	0.0%	61.5%	46.9%	30.3%	37.2%
Grand Total	5.09	10.5%	27.5%	24.8%	23.5%	25.6%

Original LTV	GWAC	1M VPR	3M VPR	6M VPR	12M VPR	Lifetime VPR
85–90	6.25	0.0%	0.0%	0.0%	0.0%	0.0%
80–85	5.66	0.1%	0.0%	13.1%	11.7%	11.7%
75–80	5.63	0.3%	22.0%	24.2%	28.7%	40.9%
70–75	5.20	5.7%	34.3%	30.6%	30.3%	32.8%
60–70	4.92	7.7%	27.5%	26.4%	22.1%	22.4%
<=60	4.97	20.7%	29.0%	21.1%	21.6%	22.5%
Grand Total	5.09	10.5%	27.5%	24.8%	23.5%	25.6%

Note: Prepayments as of Q3 2018. Past performance is not indicative of future results.

Onslow Bay Expanded Prime Fixed Prepayments

Origination Type	GWAC	1M VPR	3M VPR	6M VPR	12M VPR	Lifetime VPR
Full Doc	5.19	10.0%	16.5%	21.8%	26.7%	27.9%
Alt Doc	5.40	0.4%	17.1%	14.2%	14.2%	13.9%
Grand Total	5.26	6.9%	16.7%	19.9%	24.5%	26.0%

GWAC	GWAC	1M VPR	3M VPR	6M VPR	12M VPR	Lifetime VPR
3.75-4.0%	3.88	0.2%	0.2%	0.2%	0.3%	0.3%
4.0-4.25%	4.08	0.0%	0.0%	0.0%	0.0%	0.0%
4.25-4.5%	4.30	0.0%	0.0%	15.6%	25.8%	21.2%
4.5-5.0%	4.79	9.6%	3.7%	9.7%	16.7%	18.6%
5.0-5.5%	5.23	0.2%	15.9%	26.4%	28.9%	35.6%
5.5-6.0%	5.68	0.3%	13.7%	13.3%	22.4%	26.0%
6.0-6.5%	6.18	0.4%	69.9%	53.4%	46.5%	38.5%
>=6.5%	6.62	59.0%	37.6%	47.4%	54.5%	47.9%
Grand Total	5.26	6.9%	16.7%	19.9%	24.5%	26.0%

Original LTV	GWAC	1M VPR	3M VPR	6M VPR	12M VPR	Lifetime VPR
85-90	5.59	34.9%	47.0%	39.2%	30.0%	29.4%
80-85	5.68	0.7%	0.7%	36.1%	21.8%	15.9%
75-80	5.33	0.1%	12.7%	17.2%	26.9%	29.3%
70-75	5.29	0.4%	14.8%	20.0%	26.3%	27.8%
60-70	5.14	14.7%	23.3%	18.4%	27.9%	28.1%
<=60	5.15	0.5%	2.9%	11.6%	11.0%	13.8%
Grand Total	5.26	6.9%	16.7%	19.9%	24.5%	26.0%

Note: Prepayments as of Q3 2018. Past performance is not indicative of future results.

Appendix

OBX Securitizations

Seasoned Prime Transaction

\$327,161,759

Deal Size

OBX 2018-1 Trust

Issuer

Onslow Bay Financial LLC

Seller and Sponsor

Onslow Bay Funding LLC

Depositor

Wells Fargo Bank, N.A.

Specialized Loan Servicing, LLC

Servicers

Transaction Highlights

- Represents Onslow Bay's first rated securitization of 2018 and the company's second overall, achieving AAA-rating from Fitch and DBRS
- 3/26/2018 Pricing
- 100% of the loans are first lien mortgage loans
- Non-QM Status:
 - 92% ATR / QM: Not Applicable; 5% Non-QM loans; 3% QM loans
- Servicers:
 - Wells Fargo Bank 63%; SLS 37%
- Onslow Bay retained a 5% vertical slice to satisfy risk retention

Structural Overview

Tranche	Size	Rating	Coupon	CE	Spread	Yield	WAL
A2	\$293,898,000	AAA/AAA	1mL+65	10.00%	65 DM	NA	3.24
A2IO	\$293,898,000	AAA/AAA	WAC IO	NA			
A3A	\$3,918,000	AAA/AAA	WAC	8.80%			
B1A	\$7,184,000	AA/AA	WAC	0.07%			
B2A	\$6,205,000	A/A	WAC	4.70%			
B3A	\$6,368,000	BBB/BBB	WAC	2.75%			
B4	\$4,082,000	BB/BB	WAC	1.50%			
B5	\$1,632,000	B/B	WAC	1.00%			
B6	\$3,266,471	NR/NR	WAC	0.00%			

Collateral Characteristics

Deal Issuance		Top 5 States	% UPB
Deal Size	\$327,161,759	CA	43%
Avg. Loan Bal	664,560	FL	15%
WAC	4.00	NY	15%
Original Term	364 months	VA	3%
Seasoning	124 months	IL	3%
Original LTV	66%		
FICO	749		
% ARM	98%		
% Bank Statements	26%		
% Purchase	54%		
% Owner Occupied	79%		

Note: Pricing speed: 20 CPR. Past performance is not indicative of future results.

Expanded Prime Transaction

\$383,451,233

Deal Size

OBX 2018-EXP1 Trust

Issuer

Onslow Bay Financial LLC

Seller, Sponsor and P&I Advancing Party

Onslow Bay Funding LLC

Depositor

Specialized Loan Servicing, LLC

Quicken Loans Inc.

Select Portfolio Servicing, Inc.

Servicers

Transaction Highlights

- Represents Onslow Bay's first expanded prime securitization, achieving AAA-rating from Fitch and KBRA
- 7/31/2018 Pricing
- 100% of the loans are first lien mortgage loans
- Non-QM Status:
 - 45% Non-QM loans; 25% ATR / QM: Not Applicable; 30% QM loans
- Servicers:
 - SLS 83%; Quicken 13%; SPS 4%
- Onslow Bay retained a 5% horizontal slice to satisfy risk retention

Structural Overview

Tranche	Size	Rating	Coupon	CE	Spread	Yield	WAL
1A3	\$138,471,000	AAA/AAA	4.00%	15.00%	110	4.02%	2.75
1AIO3	\$138,471,000	AAA/AAA	0.50%	NA			
1A6	\$20,000,000	AAA/AAA	4.50%	15.00%	80	3.68%	2.06
1AIO6	\$20,000,000	AAA/AAA	WAC IO	NA			
1A9	\$4,564,860	AAA/AAA	4.50%	12.65%	125	4.17%	2.75
2A1	\$78,462,000	AAA/AAA	L+85	15	85		2.61
2A1A	\$63,000,000	AAA/AAA	L+85	15.00%	80		2.04
2A1B	\$21,000,000	AAA/AAA	L+85	15.00%			
2A2	\$4,491,000	AAA/AAA	Flt	12.65%	100		2.61
2AIO	\$166,953,000	AAA/AAA	WAC IO	NA			
B1A	\$1,725,000	AA/AA	WAC	12.20%			
B2A	\$24,541,000	A/A	WAC	5.80%			
B3	\$8,436,000	BBB/BBB	WAC	3.60%			
B4	\$6,902,000	BB/BB-	WAC	1.80%			
B5	\$2,109,000	B/B	WAC	1.25%			
B6	\$4,794,233	NR/NR	WAC	0.00%			

Collateral Characteristics

Deal Issuance		Top 5 States	% UPB
Deal Size	\$383,451,233	CA	64%
Avg. Loan Bal	664,560	NY	5%
WAC	4.87	FL	4%
Original Term	360 months	AZ	3%
Seasoning	17 months	TX	3%
Original LTV	67%		
FICO	746		
DTI	36%		
% ARM	50%		
% Bank Statements	26%		
% Purchase	55%		

Note: Pricing speed: Group 1 (20 CPR), Group 2 (15 CPB). Past performance is not indicative of future results.

Expanded Prime Transaction

\$384,027,255

Deal Size

OBX 2018-EXP2 Trust

Issuer

Onslow Bay Financial LLC

Seller, Sponsor and P&I Advancing Party

Onslow Bay Funding LLC

Depositor

Specialized Loan Servicing, LLC

Quicken Loans Inc.

Select Portfolio Servicing, Inc.

Servicers

Transaction Highlights

- Represents Onslow Bay's third securitization of 2018, and the Company's second expanded prime securitization, achieving AAA-rating from Fitch and DBRS
- 10/23/2018 Pricing
- 100% of the loans are first lien mortgage loans
- Non-QM Status:
 - 54% Non-QM loans; 31% ATR / QM: Not Applicable; 15% QM loans
- Servicers:
 - SLS 48%; SPS 42%; Quicken 10%
- Onslow Bay retained a 5% horizontal slice to satisfy risk retention

Structural Overview

Tranche	Size	Rating	Coupon	CE	Spread	Yield	WAL
1A1	\$79,670,000	AAA/AAA	4.00%	15.00%	85	3.93%	2.07
1A8	\$68,854,796	AAA/AAA	4.50%	15.00%	110	4.22%	2.85
1A7	\$19,917,204	AAA/AAA	4.50%	15.00%			
1A9	\$4,260,000	AAA/AAA	4.50%	12.85%			
1AIO1	\$79,670,000	AAA/AAA	0.50%	NA			
1AIO6	\$172,702,000	AAA/AAA	WAC IO	NA			
2A1A	\$126,386,000	AAA/AAA	L+75	15.00%	80		2.24
2A1B	\$31,596,000	AAA/AAA	L+75	15.00%	100		4.48
2A2	\$3,995,000	AAA/AAA	L+95	12.85%	100		2.69
2AIO	\$161,977,000	AAA/AAA	WAC IO	NA			
B1A	\$1,344,000	AA/AA	WAC	12.50%			
B2A	\$23,042,000	A/A	WAC	6.50%			
B3	\$10,561,000	BBB/BBB	WAC	3.75%			
B4	\$6,336,000	BB/BB	WAC	2.10%			
B5	\$3,264,000	B/B	WAC	1.25%			
B6	\$4,801,255	NR/NR	WAC	0%			

Collateral Characteristics

Deal Issuance		Top 5 States	% UPB
Deal Size	\$384,027,255	CA	62%
Avg Loan Bal	636,861	NY	7%
WAC	5.07	AZ	4%
Original Term	361 months	FL	4%
Seasoning	12 months	VA	3%
Original LTV	67%		
FICO	753		
DTI	36%		
% ARM	48%		
% Bank Statements	40%		
% Purchase	61%		

Note: Pricing speed: Group 1 (20 CPR), Group 2 (15 CPB). Past performance is not indicative of future results.

Non-GAAP Reconciliations

Non-GAAP Reconciliations

In connection with Annaly Capital Management, Inc.'s (the "Company") continued growth and diversification, including the recent acquisition of MTGE Investment Corp., the Company has updated its calculation of core earnings and related metrics to reflect changes to its portfolio composition and operations. Beginning with the results for the quarter ended September 30, 2018, core earnings has been refreshed to include coupon income (expense) on CMBX positions (reported in Net gains (losses) on other derivatives) and to exclude depreciation and amortization expense on real estate and related intangibles (reported in Other income (loss)), non-core income (loss) allocated to equity method investments (reported in Other income (loss)) and the income tax effect of non-core income or loss (reported in Income taxes). Prior period results will not be adjusted to conform to the revised calculation as the impact in each of those periods is not material.

The Company calculates "core earnings", a non-GAAP measure, 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). 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.

Non-GAAP Reconciliations (cont'd)

Unaudited, dollars in thousands except per share amounts

To supplement its consolidated financial statements, which are prepared and presented in accordance with 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											
	September 30,	June 30,	March 31,	December 31,	September 30,	June 30,	March 31,	December 31,	September 30,	June 30,	March 31,	
	2018	2018	2018	2017	2017	2017	2017	2016	2016	2016	2016	
<u>GAAP to Core Reconciliation</u>												
GAAP net income (loss)	\$385,429	\$595,887	\$1,327,704	\$746,771	\$367,315	\$14,522	\$440,408	\$1,848,483	\$730,880	(\$278,497)	(\$868,080)	
Net income (loss) attributable to non-controlling interests	(\$149)	(\$32)	(\$96)	(\$151)	(\$232)	(\$102)	(\$103)	(\$87)	(\$336)	(\$385)	(\$162)	
Net income (loss) attributable to Annaly	\$385,578	\$595,919	\$1,327,800	\$746,922	\$367,547	\$14,624	\$440,511	\$1,848,570	\$731,216	(\$278,112)	(\$867,918)	
Adjustments to excluded reported realized and unrealized (gains) losses:												
Realized (gains) losses on termination of interest rate swaps	(575)	-	(834)	160,075	-	58	-	55,214	(1,337)	60,064	-	
Unrealized (gains) losses on interest rate swaps	(417,203)	(343,475)	(977,285)	(484,447)	(56,854)	177,567	(149,184)	(1,430,668)	(256,462)	373,220	1,031,720	
Net (gains) losses on disposal of investments	324,294	66,117	(13,468)	(7,895)	11,552	5,516	(5,235)	(7,782)	(14,447)	(12,535)	1,675	
Net (gains) losses on other derivatives	(94,827)	(34,189)	47,145	(121,334)	(154,208)	14,423	(319)	139,470	(162,981)	(81,880)	(125,189)	
Net unrealized (gains) losses on instruments measured at fair value through earnings	39,944	48,376	51,593	12,115	67,492	(16,240)	(23,683)	(110,742)	(29,675)	54,154	(128)	
Bargain purchase gain	-	-	-	-	-	-	-	-	(72,576)	-	-	
Adjustments to exclude components of other (income) loss:												
Depreciation and amortization expense related to commercial real estate	9,278	-	-	-	-	-	-	-	-	-	-	
Non-core (income) loss allocated to equity method investments ⁽¹⁾	(2,358)	-	-	-	-	-	-	-	-	-	-	
Non-core other (income) loss ⁽²⁾	44,525	-	-	-	-	-	-	-	-	-	-	
Adjustments to exclude components of general and administrative expenses and income taxes:												
Transaction expenses and non-recurring items ⁽³⁾	60,081	-	1,519	-	-	-	-	-	46,724	2,163	-	
Income tax effect on non-core income (loss) items	886	-	-	-	-	-	-	-	-	-	-	
Other non-recurring loss	-	-	-	-	-	-	-	-	-	-	-	
Adjustments to add back components of realized and unrealized (gains) losses:												
TBA dollar roll income and CMBX coupon income ⁽⁴⁾	56,570	62,491	88,353	89,479	94,326	81,051	69,968	98,896	90,174	79,519	83,189	
MSR amortization ⁽⁵⁾	(19,913)	(19,942)	(21,156)	(19,331)	(16,208)	(17,098)	(14,030)	(27,018)	(21,634)	-	-	
Core earnings*	\$386,280	\$375,297	\$503,667	\$375,584	\$313,647	\$259,901	\$318,028	\$565,940	\$309,002	\$196,593	\$123,349	
Less:												
Premium amortization adjustment (PAA) cost (benefit)	3,386	7,516	(118,395)	11,367	39,899	72,700	17,870	(238,941)	3,891	85,583	168,408	
Core Earnings (excluding PAA)*	389,666	382,813	385,272	386,951	353,546	332,601	335,898	326,999	312,893	282,176	291,757	
GAAP net income (loss) per average common share ⁽⁶⁾	\$0.29	\$0.49	\$1.12	\$0.62	\$0.31	(\$0.01)	\$0.41	\$1.79	\$0.70	(\$0.32)	(\$0.96)	
Core earnings per average common share ^{(6)*}	\$0.29	\$0.30	\$0.41	\$0.30	\$0.26	\$0.23	\$0.29	\$0.53	\$0.29	\$0.19	\$0.11	
Core earnings (excluding PAA) per average common share ^{(6)*}	\$0.30	\$0.30	\$0.30	\$0.31	\$0.30	\$0.30	\$0.31	\$0.30	\$0.29	\$0.29	\$0.30	
Annualized GAAP return (loss) on average equity	10.73%	17.20%	36.86%	20.58%	10.98%	0.46%	13.97%	57.23%	23.55%	(9.60%)	(29.47%)	
Annualized core return on average equity (excluding PAA)*	10.85%	11.05%	10.70%	10.67%	10.57%	10.54%	10.66%	10.13%	10.09%	9.73%	9.91%	

* Represents a non-GAAP financial measure.

Detailed endnotes and a glossary of defined terms are included at the end of this presentation.

Non-GAAP Reconciliations (cont'd)

Unaudited, dollars in thousands

	For the quarters ended											
	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	
<u>Premium Amortization Reconciliation</u>												
Premium amortization expense	\$187,537	\$202,426	\$95,832	\$203,951	\$220,636	\$251,084	\$203,634	(\$19,812)	\$213,241	\$265,475	\$355,671	
Less:												
PAA cost (benefit)	\$3,386	\$7,516	(\$118,395)	\$11,367	\$39,899	\$72,700	\$17,870	(\$238,941)	\$3,891	\$85,583	\$168,408	
Premium amortization expense (excluding PAA)	\$184,151	\$194,910	\$214,227	\$192,584	\$180,737	\$178,384	\$185,764	\$219,129	\$209,350	\$179,892	\$187,263	
<u>Interest Income (excluding PAA) Reconciliation</u>												
GAAP interest income	\$816,596	\$776,806	\$879,487	\$745,423	\$622,550	\$537,426	\$587,727	\$807,022	\$558,668	\$457,118	\$388,143	
PAA cost (benefit)	\$3,386	\$7,516	(\$118,395)	\$11,367	\$39,899	\$72,700	\$17,870	(\$238,941)	\$3,891	\$85,583	\$168,408	
Interest income (excluding PAA)*	\$819,982	\$784,322	\$761,092	\$756,790	\$662,449	\$610,126	\$605,597	\$568,081	\$562,559	\$542,701	\$556,551	
<u>Economic Interest Expense Reconciliation</u>												
GAAP interest expense	\$500,973	\$442,692	\$367,421	\$318,711	\$268,937	\$222,281	\$198,425	\$183,396	\$174,154	\$152,755	\$147,447	
Add:												
Net interest component of interest rate swaps ⁽¹⁾	(51,349)	(31,475)	48,160	73,957	78,564	84,252	88,966	92,841	103,100	108,301	123,124	
Economic interest expense* ⁽¹⁾	\$449,624	\$411,217	\$415,581	\$392,668	\$347,501	\$306,533	\$287,391	\$276,237	\$277,254	\$261,056	\$270,571	
<u>Economic Net Interest Income (excluding PAA) Reconciliation</u>												
Interest income (excluding PAA)	\$819,982	\$784,322	\$761,092	\$756,790	\$662,449	\$610,126	\$605,597	\$568,081	\$562,559	\$542,701	\$556,551	
Less:												
Economic interest expense* ⁽¹⁾	449,624	411,217	415,581	392,668	347,501	306,533	287,391	276,237	277,254	261,056	270,571	
Economic net interest income (excluding PAA)* ⁽¹⁾	\$370,358	\$373,105	\$345,511	\$364,122	\$314,948	\$303,593	\$318,206	\$291,844	\$285,305	\$281,645	\$285,980	
<u>Economic Metrics (excluding PAA)</u>												
Average interest earning assets	\$101,704,957	\$102,193,435	\$101,979,042	\$100,247,589	\$89,253,094	\$83,427,268	\$85,664,151	\$84,799,222	\$82,695,270	\$73,587,753	\$74,171,943	
Interest income (excluding PAA)*	\$819,982	\$784,322	\$761,092	\$756,790	\$662,449	\$610,126	\$605,597	\$568,081	\$562,559	\$542,701	\$556,551	
Average yield on interest earning assets (excluding PAA)*	3.22%	3.07%	2.99%	3.02%	2.97%	2.93%	2.83%	2.68%	2.72%	2.95%	3.00%	
Average interest bearing liabilities	\$86,638,082	\$87,103,807	\$87,376,452	\$85,992,215	\$76,382,315	\$70,486,779	\$72,422,968	\$72,032,600	\$70,809,712	\$62,049,474	\$62,379,695	
Economic interest expense* ⁽¹⁾	\$449,624	\$411,217	\$415,581	\$392,668	\$347,501	\$306,533	\$287,391	\$276,237	\$277,254	\$261,056	\$270,571	
Average cost of interest bearing liabilities ⁽¹⁾	2.08%	1.89%	1.90%	1.83%	1.82%	1.74%	1.59%	1.53%	1.57%	1.68%	1.73%	
Economic net interest income (excluding PAA)* ⁽¹⁾	\$370,358	\$373,105	\$345,511	\$364,122	\$314,948	\$303,593	\$318,206	\$291,844	\$285,305	\$281,645	\$285,980	
Net interest spread (excluding PAA)*	1.14%	1.18%	1.09%	1.19%	1.15%	1.19%	1.24%	1.15%	1.15%	1.27%	1.27%	
Interest income (excluding PAA)*	\$819,982	\$784,322	\$761,092	\$756,790	\$662,449	\$610,126	\$605,597	\$568,081	\$562,559	\$542,701	\$556,551	
TBA dollar roll income and CMBX coupon income ⁽²⁾	56,570	62,491	88,353	89,479	94,326	81,051	69,968	98,896	90,174	79,519	83,189	
Interest expense	(500,973)	(442,692)	(367,421)	(318,711)	(268,937)	(222,281)	(198,425)	(183,396)	(174,154)	(152,755)	(147,447)	
Net interest component of interest rate swaps	51,349	31,475	(48,160)	(82,271)	(88,211)	(96,470)	(104,156)	(103,872)	(124,572)	(130,762)	(147,475)	
Subtotal	\$426,928	\$435,596	\$433,864	\$445,287	\$399,627	\$372,426	\$372,984	\$379,709	\$354,007	\$338,703	\$344,818	
Average interest earning assets	\$101,704,957	\$102,193,435	\$101,979,042	\$100,247,589	\$89,253,094	\$83,427,268	\$85,664,151	\$84,799,222	\$82,695,270	\$73,587,753	\$74,171,943	
Average TBA contract and CMBX balances ⁽²⁾	12,216,863	9,407,819	12,050,341	17,509,691	19,291,834	14,206,869	10,655,785	14,613,149	17,280,237	14,592,236	15,110,947	
Subtotal	\$113,921,820	\$111,601,254	\$114,029,383	\$117,757,280	\$108,544,928	\$97,634,137	\$96,319,936	\$99,412,371	\$99,975,507	\$88,179,989	\$89,282,890	
Net interest margin (excluding PAA)*	1.50%	1.56%	1.52%	1.51%	1.47%	1.53%	1.55%	1.53%	1.42%	1.54%	1.54%	

* Represents a non-GAAP financial measure.

Detailed endnotes and a glossary of defined terms are included at the end of this presentation.

Glossary & Endnotes

Glossary

ACREG: Refers to Annaly Commercial Real Estate Group

AMML: Refers to Annaly Middle Market Lending Group

BBREMTG: Represents the Bloomberg Mortgage REIT Index*

CRT: Refers to credit risk transfers

DTI: Represents debt to income

FHLB: Refers to the Federal Home Loan Bank

S&P 500: Represents the S&P 500 Index*

*Represents constituents as of December 19, 2018.

Endnotes

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1. Agency assets include to be announced ("TBA") purchase contracts (market value) and mortgage servicing rights ("MSRs"). Residential Credit and ACREG assets include only the economic interest of consolidated variable interest entities ("VIEs"). Sum of business segment totals does not tie due to rounding.
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 September 30, 2018 (adjusted for P/B as of December 19, 2018) to the market capitalization of the companies in each respective comparative sector as of December 19, 2018. Comparative sectors used for Agency, ACREG and Residential Credit ranking are their respective sector within the BBREMTG Index as of December 19, 2018. Comparative sector used for Annaly AMML ranking is the S&P BDC Index.
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.

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1. Based on annualized, aggregate Q3 2018 dividend of \$0.30 and a closing price of \$10.10 on December 19, 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 have not been pledged or securitized (including cash and cash equivalents, Agency MBS, CRT, Non-Agency MBS, Residential mortgage loans, MSRs, reverse repo agreements, 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.

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1. Number of equity offerings does not include any distributions made pursuant to Annaly's at-the-market ("ATM") program of its common stock, which was entered into in January 2018. Offering proceeds are calculated before expenses.
2. Total return shown since December 31, 2015.

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1. Includes TBA purchase contracts and MSRs.
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.

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1. Realized losses represents the realized dollar loss or write-down taken on the contractual principal balance of mortgage debt.
2. Shown exclusive of securitized residential mortgage loans of a consolidated VIE and loans held by an affiliated master servicer.
3. Prime classification includes \$21 million of Prime IO.

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1. Includes \$30 million of future funding commitments.
2. B-Notes held for investment reflected as mezzanine investments.
3. Other includes 45 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.

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1. Inclusive of add-ons and repricings; yield calculated net of syndications. Does not include \$10 million of committed but undrawn revolver.
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.

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1. Beginning with the quarter ended September 30, 2018, 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).
2. Represents the amount of consideration paid for the acquisition of MTGE Investment Corp. in excess of the fair value of net assets acquired. This amount is primarily attributable to a decline in portfolio valuation between the pricing and closing dates of the transaction and is consistent with changes in market values observed for similar assets over the same period.
3. Represents costs incurred in connection with the MTGE transaction and costs incurred in connection with a securitization of residential whole loans for the quarter ended September 30, 2018. Represents costs incurred in connection with a securitization of residential whole loans for the quarter ended March 31, 2018. Represents costs incurred in connection with the HTS transaction for the periods ended September 30, 2016 and June 30, 2016.
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 for the quarter ended September 30, 2018. There were no adjustments for CMBX coupon income prior to September 30, 2018.
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.
6. Net of dividends on preferred stock.

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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 represents the net interest component of all interest rate swaps.
2. CMBX coupon income and average CMBX balances have only been applied to the quarter ended September 30, 2018. The impact to net interest margin (ex-PAA) in prior periods was immaterial.