United Health Products, Inc.
Form 10-Q
June 19, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2012

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to_________

Commission file number: 814-00717

UNITED HEALTH PRODUCTS, INC.
(Exact name of Company as specified in its charter)

Nevada	84-1517723
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1400 Old Country Road, Suite 302 Westbury, NY	11021
(Address of Company's principal executive offices)	(Zip Code)

(516) 487-1431
(Company's telephone number, including area code)

____
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the 12 preceding months (or such shorter period that the registrant was required to submit and post such file). Yes x No o

Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or

a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	o	Accelerated Filer	o
Accelerated Filer	o	Smaller Reporting Company	x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of the filing date of this Form 10-Q, the registrant had a total of 96,350,140 shares of Common Stock outstanding.

UNITED HEALTH PRODUCTS, INC.

FORM 10-Q QUARTERLY REPORT

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PART I – FINANCIAL INFORMATION

UNITED HEALTH PRODUCTS, INC
Condensed Consolidated Balance Sheets

	September 30, 2012	December 31, 2011
ASSETS		
Current Assets		
Cash and Cash Equivalents	$86	$226
Other Assets		
Intangible Assets, Net	175,000	250,000
TOTAL ASSETS	$175,086	$250,226
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current Liabilities		
Accounts payable and accrued expenses	$755,695	$705,856
Due to related party	-	345,023
Liability for unissued shares	496,723	202,692
Notes payable - related parties	431,870	409,398
Notes payable and accrued interest	120,857	111,709
Total current liabilities	1,805,145	1,774,678
Stockholders' Deficiency		
Common Stock - $.001 par value, 150,000,000 Shares Authorized, 83,644,133 and 80,840,394 Shares Issued and Outstanding at September 30, 2012 and December 31, 2011, respectively	83,644	80,840
Additional Paid-In Capital	4,584,553	4,510,882
Accumulated Deficit	(6,298,256)	(6,116,174)
Total Stockholders' Deficiency	(1,630,059)	(1,524,452)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	$175,086	$250,226

See notes to condensed consolidated financial statements.

UNITED HEALTH PRODUCTS, INC
Condensed Consolidated Statements of Operations

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues	$-	$-	$-	$-
Operating Costs and Expenses				
Cost of Sales	-	-	-	-
Amortization of Intangibles	25,000	25,000	75,000	75,000
Selling, general and administrative expenses	15,005	165,253	51,967	904,426
Total Operating Expenses	40,005	190,253	126,967	979,426
Loss from Operations	(40,005)	(190,253)	(126,967)	(979,426)
Other expenses				
Interest Expense, Net	16,171	17,789	55,115	40,329
Net Loss	$(56,176)	$(208,042)	$(182,082)	$(1,019,755)
Net Loss per common share:				
Basic and diluted	$(0.00)	$(0.00)	$(0.00)	$(0.01)
Weighted average number of shares outstanding	83,644,133	80,840,394	83,165,940	80,615,793

See notes to condensed consolidated financial statements.

UNITED HEALTH PRODUCTS, INC
Condensed Consolidated Statements of Stockholders' Deficiency
For the Nine Months Ended September 30, 2012

	Common Stock		Additional Paid-in	Accumulated	
	Shares	Amount	Capital	Deficit	Total
Balance at December 31, 2011	80,840,394	$80,840	$4,510,882	$ (6,116,174)	$(1,524,452)
Issuance of Common Stock in connection with conversion of indebtedness to related party	2,453,739	2,454	55,021		57,475
Issuance of Common Stock in connection with services	350,000	350	18,650		19,000
Net Loss				(182,082)	(182,082)
Balance at September 30, 2012	83,644,133	$83,644	$4,584,553	$ (6,298,256)	$(1,630,059)

See notes to condensed consolidated financial statements.

UNITED HEALTH PRODUCTS, INC
Condensed Consolidated Statements of Cash Flows
For the Nine Months Ended September 30,

	2012	2011
Cash Flows from Operating Activities:		
Net Loss	$(182,082)	$(1,019,755)
Adjustments to Reconcile Net Loss to		
Net Cash Used In Operating Activities:		
Depreciation and Amortization	75,000	75,000
Interest accrued	55,115	39,086
Issuance of Stock Based Compensation		476,450
Changes in assets and liabilities:		
Prepaid Expenses	-	(26,018)
Accounts Payable and Accrued Expenses	49,840	189,872
Net Cash Used In Operating Activities	(2,127)	(265,365)
Cash Flows Used In Investing Activities		
Increase in intangibles	-	(4,850)
Net cash used in Investing Activities	-	(4,850)
Cash Flows from Financing Activities:		
Proceeds from Related Parties	1,987	268,562
Net Cash Provided By Financing Activities	1,987	268,562
(Decrease) Increase in Cash and Cash Equivalents	(140)	(1,653)
Cash and Cash Equivalents - Beginning of period	226	2,381
CASH AND CASH EQUIVALENTS - END OF PERIOD	$86	$728
Schedule of Non-Cash Financing Activities:		
Issuance of Common Stock in connection with Conversion of Convertible Notes and Related Interest	$57,475	$43,108
Common Stock cancelled in connection with settlement		$2,000

See notes to condensed consolidated financial statements.

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UNITED HEALTH PRODUCTS, INC. AND SUBSIDIARY COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1. Organization and Basis of Preparation

United Health Products, Inc. (formerly United EcoEnergy Corp.) (“United” or the “Company”) is a product development and solutions company focusing its growth initiatives on the expanding wound-care industry and disposable medical supplies markets. Epic Wound Care, Inc. (“Epic”), the Company’s principal operating subsidiary, produces an innovative gauze product that absorbs exudate (fluids which have been discharged from blood vessels) by forming a gel-like substance upon contact.

United was a closed-end management investment company that in February 2006 elected to be treated as a business development company (“BDC”) under the Investment Company Act of 1940, (the “1940 Act”). The Company was originally formed in February 1997 as MNS Eagle Equity Group III, Inc.; however, it conducted no operations until electing to be a BDC through which it provided capital and other assistance to start-up and micro-cap companies. During this time, United acquired and established its initial interest in the medical, pharmaceutical and healthcare industry by acquiring certain intellectual property rights and creating Epic, which will become the Company’s operating platform company in this industry. The Company also completed two minority equity investments in companies that we now believe will not be strategic to our healthcare strategy.

In February 2010, our Board of Directors and the holders of a majority of our outstanding shares of common stock authorized management to withdraw the election to be regulated as a BDC. This decision was in part prompted by the actuality that the majority of the Company’s resources were allocated to managing the operating activities of its holdings and, in addition, management found that the Company may not have been in compliance with certain BDC provisions of the 1940 Act. On July 7, 2010, the Company filed an Information Statement with the SEC providing notice of shareholder action in lieu of a Meeting of Shareholders, taken pursuant to the written consent of certain shareholders, referred to as the consenting shareholders. Specifically, the consenting shareholders approved the withdrawal of the Company’s election to be a BDC. This action became effective on August 17, 2010 when the Company filed the applicable Notice concerning the withdrawal with the Securities and Exchange Commission. Further, in recognition of the change in its operations, the Company changed its name to United Health Products, Inc., effective as of September 30, 2010.

As a result of the decision to withdraw the Company’s election to be treated as a BDC and become an operating company, the fundamental nature of the Company’s business changed from that of investing in a portfolio of securities with the goal of achieving gains on appreciation and dividend income, to that of being actively engaged in the ownership and management of a holding company with the goal of generating income from the operations of those businesses. The decision to withdraw the Company’s election as a BDC under the 1940 Act necessitated a significant change in the Company’s method of accounting. The Company formerly utilized the BDC financial statement presentation and that accounting utilized the value method of accounting used by investment companies, which allows BDCs to recognize income and value their investments at market value as opposed to historical cost. As an operating company, the Company was required to adopt the financial statement presentation and accounting for securities held, which provides for either fair value or historical cost methods of accounting, depending on the classification of the investment and the Company’s intent with respect to the period of time it intends to hold the investment. This change in the Company’s method of accounting could impact the market value of its investments in privately held companies by eliminating the Company’s ability to report an increase in value of its holdings as the increase occurs. As an operating company, the Company, effective December 31, 2009, consolidated its financial statements with its controlled subsidiaries, thus eliminating the portfolio company reporting benefits available to BDCs.

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate the continuation of the Company as a going concern. This basis of accounting contemplates the recovery of the Company's assets and the satisfaction of liabilities in the normal course of business. The Company since its formation has not generated any significant revenues. The Company has not as yet attained a level of operations that allows it to meet its current overhead and may not attain profitable operations within its first few business operating cycles, nor is there any assurance that such an operating level can ever be achieved. The Company is dependent upon obtaining additional financing adequate to fund its operations.

While the Company has funded its initial operations with private placements and secured loans from a related party, there can be no assurance that adequate financing will continue to be available to the Company and, if available, on terms that are favorable to the Company. The Company's ability to continue as a going concern is also dependent on many events outside of its direct control, including, among other things, improvement in the economic climate. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

Interim financial statements are prepared in accordance with GAAP for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 8 of Regulation S-X, as appropriate. In the opinion of management, all adjustments, which are of a normal recurring nature, considered necessary for the fair presentation of financial statements for the interim period, have been included.

Operating results for the interim periods presented are not necessarily indicative of the results to be expected for a full year.

The condensed consolidated balance sheet at December 31, 2011 has been derived from the audited consolidated financial statements at that date but does not include all the information and footnotes required by generally accepted accounting principles for complete financial statements.

These interim condensed financial statements should be read in conjunction with the Company's audited financial statements and notes for the period ended December 31, 2011 filed with the Securities and Exchange Commission on Form 10-K in June 2013.

Note 2. Significant Accounting Policies

Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Epic Wound Care, Inc. as of the dates and for the fiscal years indicated. All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reported period. Changes in the economic environment, financial markets, as well as in the healthcare industry, and any other parameters used in determining these estimates, could cause actual results to differ.

Income Taxes

The Company accounts for income taxes using a method that requires recognition of deferred tax assets and liabilities for expected future tax consequences of temporary differences that currently exist between tax bases and financial reporting bases of the Company's assets and liabilities which is commonly known as the asset and liability method. In assessing the ability to realize deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company evaluates its tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax positions are ''more-likely-than-not'' of being sustained by the applicable tax authority. Tax positions not deemed to meet the "more-likely-than-not" threshold are recorded as an expense in the applicable year. The Company does not have a liability for any unrecognized tax benefits. Management's evaluation of uncertain tax positions may be subject to review and adjustment at a later date based upon factors including, but not limited to, an on-going analysis of tax laws, regulations and interpretations thereof.

The Company files income tax returns in the United States Federal jurisdiction and New York. With few exceptions, the Company is no longer subject to United States federal, state and local income tax examinations by tax authorities for years prior to 2006. The Company adopted the provisions of FASB ASC 740, Income Taxes, relating to unrecognized tax benefits on January 1, 2009. The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses.

As of December 31, 2011, the Company has approximately $5.2 million of net operating loss carry-forwards available to affect future taxable income and has established a valuation allowance equal to the tax benefit of the net operating loss carry forwards and temporary differences as realization of the asset is not assured.

Revenue Recognition

The Company recognizes revenues when persuasive evidence of an arrangement exists, product has been delivered or services have been rendered, the price is fixed or determinable and collectability is reasonably assured. Revenue is recognized net of estimated sales returns and allowances.

Revenues are attributable to the sale of medical products through distributor agreements. The principal terms of the agreements provide that the distributor orders be accompanied by partial payment in advance, which at least equals 50% of total manufactured cost, as defined, for orders for distributor inventory and, in addition, an agreed portion of the distributor’s gross profit on special orders. The balance of the manufactured cost is due from the distributor at the time of shipment. The Company is also entitled to an agreed percentage of the distributor’s profit on receipt by the distributor. The Company defers all amounts received in advance of shipment and recognizes as revenue the aggregate of amounts invoiced in advance and an estimate of the Company’s portion of distributor’s profit at the time of shipment.

Per Share Information

Basic earnings per share are calculated using the weighted average number of common shares outstanding for the period presented. Diluted loss per share is the same as basic loss per share, as the effect of potentially dilutive securities (13,850,000 options and 1,698,378 warrants at September 30, 2012) is anti-dilutive.

Note 3. Acquisition of Intellectual Property Rights

In June 2009, the Company acquired the intellectual property rights of Epic Wound Care, LLC, through a wholly-owned subsidiary, Epic Wound Care, Inc. (“Epic”). The intellectual property includes the right to manufacture and distribute innovative gauze to serve the wound care market. The acquisition cost for the rights was 30 million shares of Company’s common stock, of which 20 million shares were escrowed with the voting rights controlled by the Company pending attainment of certain performance targets over 18 months from the closing date of the transaction. The Company valued the rights acquired at $500,000 based upon the Company's expectation for commercialization of the rights less costs to effectuate applicable approvals.

On March 8, 2011, the Company and Epic entered into a global settlement and release agreement (the “Settlement Agreement”) with various parties to resolve disputes regarding the Agreement and Plan of Acquisition, dated May 19, 2009, entered into by the Company in connection with its acquisition of the business and assets of Epic Wound Care, LLC (the “Acquisition Agreement”). The parties had differences of opinion concerning the satisfaction of certain milestones and conditions in the Acquisition Agreement in connection with the release of the escrowed shares mentioned above. The settlement provided for the release of 20 million escrowed shares to the sellers of the business and assets and the contribution of 2 million shares of the Company’s common stock to the capital of the Company (which were cancelled) to facilitate the settlement by certain non-controlling shareholders who provided investment advice to the Company on a regular periodic basis, including investment advice related to the Acquisition Agreement.

As a condition to the settlement, the Board of the Directors of the Company waived certain milestones and conditions regarding the release of the escrowed shares as set forth in the Acquisition Agreement and the parties to the Settlement Agreement agreed to mutual releases and to resolve and settle any and all claims, controversies, disputes and causes of action, whether asserted or unasserted, known or unknown, real or potential, or whether in law, equity or otherwise, relating to, arising out of, or in any way concerning the Acquisition Agreement and the escrowed shares, without any admission of fault, liability or wrongdoing on the part of or on behalf of any party.

During the period prior to the settlement, although the common shares escrowed were legally issued and outstanding, for purposes of calculating earnings per share the Company considered these shares as contingent and did not include them in the calculation.

The Company is amortizing the intangibles acquired over a five year period and, accordingly recorded an amortization charge of $75,000 in both periods 2012 and 2011.

Note 4. Related Party Transactions

The Company's transactions with LeadDog Capital LP were as follows:

Balance at beginning of period	$	409,398
New borrowings at 16% interest rate		1,987
Interest accrued		39,810
Redemption of indebtedness by the issuance of 1,500,000 shares of common stock		(19,325)
Balance at end of period	$	431,870

At September 30, 2012, notes and interest payable to related party includes unpaid interest of $80,219. The notes are payable within one year of the origination date of the notes or under extensions through December 2012. These notes are currently past due; however, no demand has been made for payment by LeadDog.

LeadDog Capital LP and its affiliates are shareholders and warrant holders; however, the group is restricted from becoming a beneficial owner (as such term is defined under Section 13(d) and Rule 13d-3 of the Securities Exchange Act of 1934, as amended, (the 1934 Act)), of the Company's common stock which would exceed 9.5% of the number of shares of common stock outstanding.

Note 5. Issuances of Common Stock

In February 2012, the Company redeemed $19,325 of indebtedness including interest to LeadDog Capital LP for 1,500,000 shares of common stock. The fair value of the common stock approximated the carry amount of the indebtedness at the time of the offer to convert.

In February 2012, the Company issued 953,739 shares to LeadDog which was debt previously converted but shares were not actually issued and 350,000 shares to others which was for services previously recorded but not issued.

Note 6. Fair Value Measurements

Accounting principles generally accepted in the United States define fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Additionally, the inputs used to measure fair value are prioritized based on a three-level hierarchy. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 — Quoted prices in active markets for identical assets or liabilities. The Company's investment in securities held for sale is fair valued by this method.

Level 2 — Observable inputs other than quoted prices included in Level 1. We value assets and liabilities included in this level using dealer and broker quotations, bid prices, quoted prices for similar assets and liabilities in active markets, or other inputs that are observable or can be corroborated by observable market data.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

Note 7. Other Matters

On April 29, 2010, the Company's subsidiary, Epic, submitted a Section 510(k) premarket notification of intent to market its hemostatic gauze as a Class III device to the U.S. Food and Drug Administration ("FDA"). While hemostatic gauze is a Class I device and did not require any premarket notice to the FDA in order for the Company to market these products, the Company's notification identified substantially equivalent products in order to broaden the claims that the Company could make about its capabilities. On August 3, 2010, the FDA sent Epic a notice that the application was insufficient to allow the FDA to make the determination. See "Note 9" below.

Epic entered into a corporate sponsorship agreement with American Diabetes Association (the "ADA") on July 29, 2010 that was to become effective on November 1, 2010. This agreement enables Epic to act as a sponsor of the ADA's programs and utilizes the ADA's trademarks and logos in association with Epic's products, as approved by the ADA. The agreement has a three-year term expiring October 31, 2013, subject to a mutual option to renew. The annual cost of the agreement is $400,000. The Company and the ADA have informally agreed to defer the implementation date of this agreement due to the matter discussed in the paragraph above and until the Company obtains additional financing.

Note 8. Promissory Note

On September 1, 2008, the Company entered into an Administration Agreement with Enterprise Administration, LLC ("Enterprise"), under which Enterprise provided administrative services to the Company, either directly or through sub-administration agreements. Enterprise is owned by the two individuals who owned the Investment Advisor. Under the terms of the agreement, all management and administration, and related operating needs, were provided by Enterprise, and the Company is to reimburse Enterprise for the actual costs of the services on a monthly basis. Pursuant to the agreement, Enterprise charged the Company $157,500 during the nine months ended September 30, 2009. Enterprise and the Company agreed to terminate the agreement, effective September 2, 2009, and Enterprise agreed to forgo any unpaid amounts. Accordingly, the Company wrote-off the obligation of $131,250 in 2009 by crediting additional paid in capital for the amount as a related party granted the forgiveness.

The amounts due to affiliates of $175,781 at December 31, 2011 and 2010 represent funds advanced by and expenses paid by Enterprise Partners, LLC (an affiliate of Enterprise) for the Company in prior years. The monies owed to Enterprise Partners of $175,781 were transferred to Beplate & Associates.

On March 31, 2012, the Company was required to issue 11,706,007 shares to Beplate & Associates (and its transferees), which were owed $175,781 as of November 30, 2011 plus accrued interest of $175,399.20, or a total of approximately $351,180, as a result of the automatic conversion of the principal and accrued interest thereon on March 31, 2012. However, the actual issuance of the 11,706,007 shares did not take place until June 2013.

In October 2010, in connection with the issuance of a note due in November 2010, with a face value of $75,000, the Company also issued 250,000 shares of common stock. The discount attributable to the issuance of common stock ($20,100) was expensed over the period the debt was to be outstanding. The allocation was based upon the relative fair values of the securities issued in the transaction. Included in notes payable was an additional approximate $36,000 in principal and accrued interest thereon payable to three persons. Interest accrues at the rate of 9% per annum. As of September 30, 2012, the Company has not paid the aforementioned past due indebtedness totaling $120,857.

Note 9. Subsequent Events.

In August 2012, the Company's manufacturing agent in China of its gauze products which is registered and branded in the United States under the trademark HemoStyp™, received 510(k) approval from the U.S. Food and Drug Administration ("FDA") to be sold as a Class I device. The Company has the ability to represent to distributors and customers that its gauze products meet all FDA requirements as a Class I device. This approval now allows us to expand our potential customer base and pursue accounts that requested a current 510(k) FDA approval, including the prescription based medical arena, retail, hospital, EMS, military, state and national governmental agencies and veterinary markets.

On December 10, 2012, the Company entered into a Resignation Agreement with Jan E. Chason. Pursuant to said agreement, Mr. Chason agreed to release the Company from all monies owed to him, except for $50,000 which shall be paid to him without interest or deduction therefrom on December 11, 2013. Mr. Chason, who owned 1,000,000 shares of Common Stock at the time of his execution of said agreement, received an additional 500,000 shares of restricted Common Stock for a total of 1,500,000 shares, subject to a 9-month lockup through September 11, 2013. As part of the consideration for this transaction, Mr. Chason also agreed to cancel any outstanding warrants or options owned by him.

On December 11, 2012, Mr. Wiechnik resigned from the Board of Directors and agreed to cancel any outstanding options or warrants in exchange for the issuance of 500,000 shares of restricted Common Stock, subject to a 9-month lock-up through September 11, 2013. Mr. Wiechnik also agreed to cancel any outstanding consulting fees, director compensation and/or expenses owed to him as of the execution date of said agreement.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

You should read the following discussion and analysis of our financial condition and results of operations together with our condensed consolidated financial statements and related notes appearing elsewhere in this quarterly report on Form 10-Q. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. The actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth under ‘Risk Factors’ in our annual report on Form 10-K for the fiscal year ended December 31, 2011, filed with SEC in June 2013.

OVERVIEW

United Health Products, Inc. is a product development and solutions company focusing its growth initiatives on the expanding wound-care industry and disposable medical supplies markets. Epic Wound Care, Inc. (Epic”), our principal operating subsidiary produces an innovative gauze product that absorbs exudate (fluids which have been discharged from blood vessels) by forming a gel-like substance upon contact.

United was a closed-end management investment company, which in February 2006, elected to be treated as a business development company (“BDC”) under the Investment Company Act of 1940, (the “1940 Act). Originally, we were formed in February 1997 as MNS Eagle Equity Group III, Inc.; however, we conducted no operations until electing to be a BDC through which we provided capital and other assistance to start-up and micro-cap companies. During this time, we acquired and established our initial interest in the medical, pharmaceutical and healthcare industry by acquiring certain intellectual property rights and creating Epic, which will become our operating platform company in this industry. We also completed two minority equity investments in companies that we now believe will not be strategic to our healthcare strategy.

In February 2010, our Board of Directors and the holders of a majority of our outstanding shares of common stock authorized management to withdraw the election to be regulated as a BDC. This decision was in part prompted by the actuality that the majority of our resources were allocated to managing the operating activities of our holdings and, in addition, management found that the Company may not have been in compliance with certain BDC provisions of the 1940 Act. In addition, we received communications from the Securities and Exchange Commission in which the Commission alleged that the Company was not in compliance with some of the Rules and Regulations governing BDC's. On July 7, 2010, the Company filed an Information Statement with the SEC providing notice of shareholder action in lieu of a Meeting of Shareholders, taken pursuant to the written consent of certain shareholders, referred to as the consenting shareholders. Specifically, the consenting shareholders approved the withdrawal of the Company’s election to be a BDC. This action became effective on August 17, 2010 when we filed the applicable Notice concerning the withdrawal with the Securities and Exchange Commission. Further, in recognition of the change in its operations we changed our name to United Health Products, Inc., effective as of September 30, 2010.

As a result of the decision to withdraw our election to be treated as a BDC and become an operating company, the fundamental nature of our business changed from that of investing in a portfolio of securities with the goal of achieving gains on appreciation and dividend income, to that of being actively engaged in the ownership and management of a holding company with the goal of generating income from the operations of those businesses. The decision to withdraw our election as a BDC under the 1940 Act necessitated a significant change in our method of accounting. We formerly utilized the BDC financial statement presentation and that accounting utilized the value method of accounting used by investment companies, which allows BDCs to recognize income and value their investments at market value as opposed to historical cost. As an operating company, we were required to adopt the financial statement presentation and accounting for securities held which provides for either fair value or historical cost methods of accounting, depending on the classification of the investment and our intent with respect to the period of time it intends to hold the investment. This change in our method of accounting could impact the market value of our investments in privately held companies by eliminating our ability to report an increase in the value of its holdings as the increase occurs. As an operating company, the Company, effective December 31, 2009, consolidated its financial statements with its controlled subsidiaries, thus eliminating the portfolio company reporting benefits available to BDCs.

The preparation of our financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ materially from these estimates under different assumptions or conditions.

Business Plan

We develop, manufacture and market products and technologies in the healthcare sector. Our principal operating subsidiary is Epic, which produces hemostatic gauze, a collagen-like natural substance created from chemically treated cellulose that is designed to address severe bleeding in wound care applications. We are focused on identifying additional emerging healthcare products and technologies, principally hemostatic, for strategic partnership or acquisition.

However, we have very limited funds and we may not be able to execute our current business plan and fund business operations long enough to achieve profitability. Our ultimate success may depend upon our ability to raise additional capital. There can be no assurance that additional funds will be available when needed from any source or, if available, will be available on terms that are acceptable to us.

Current Economic Environment

The U.S. economy is currently in a recession. The generally economic situation, together with the limited availability of debt and equity capital, including through bank financing, will likely have a disproportionate impact on the Company. As a result, we may not be able to execute our business plan as a result of inability to raise sufficient capital and/or be able to develop a customer base for our hemostatic gauze products.

Going Concern

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate the continuation of the Company as a going concern. This basis of accounting contemplates the recovery of our assets and the satisfaction of liabilities in the normal course of business. Since our formation, we have not generated any significant revenues. We have not as yet attained a level of operations that allows us to meet our current overhead and may not attain profitable operations within its first few business operating cycles, nor is there any assurance that such an operating level can ever be achieved. In August 2010, the FDA found that the Company's application for the designation of the Epic product as a Class III device was insufficient, which resulted in the temporary halt to sales by our distributor. In August 2012, our Chinese manufacturing agent received 510(k) approval from the FDA for our hemostatic gauze products to be sold as a Class I product.

We are dependent upon obtaining additional financing adequate to fund our operations. While we funded our initial operations with private placements and secured loans from a related party, there can be no assurance that adequate financing will continue to be available to us and, if available, on terms that are favorable to us. The report of our auditors on our financial statements for the year ended December 31, 2011 includes a reference to going concern risks. Our ability to continue as a going concern is also dependent on many events outside of our direct control, including, among other things, improvement in the economic climate. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of these uncertainties.

Results of Operations

Three Months and Nine Months ended September 30, 2012 versus Three Months and Nine Months ended September 30, 2011

Prior to December 31, 2009, the Company made considerable efforts to carry out its business plan as a Business Development Company. These efforts included both business development and financing activities. Subsequent to 2009, our efforts were directed towards developing the infrastructure to pursue sales for our Epic products and obtaining appropriate government approvals related to these products. Epic's principal distributor during the 2010 period continued to develop its customer base for the Epic gauze product designed for the wound care market. However, as a result of the FDA notice received in August 2010, the Company's distributor halted sales of Epic's products, which hemostatic gauze products could not be sold as a Class III device.

During the first nine months of 2012 and 2011, the Company had no revenues for the reasons described above. Total operating expenses for the third quarter of 2012 and 2011 were $40,005 and $190,253, respectively. Total operating expenses for the first nine months of 2012 and 2011 were $126,967 and $979,426, respectively. Our third quarter of 2012 and 2011 net loss was $(56,176) and $(208,042), respectively. Our net loss for the nine months ended September 30, 2012 was $182,082 as compared to $1,019,755 for the comparable period of the prior year. The reduction in operating expenses in 2012 versus 2011 was due to a decrease in investor relation expenses, professional fees and officers' salaries.

In August 2012, our Chinese manufacturing agent received 510(k) approval from the FDA to our hemostatic gauze products as a Class I device. Since then, products have been showcased in dental publications and our Chief Executive Officer has been on the Learning Channel to discuss our hemostatic gauze products. We have obtained interest from distributors to sell our hemostatic gauze products to the dental and veterinarian markets. Management believes that operating periods during the last nine months of 2013 should begin to see the recommencement of sales.

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Financial Condition, Liquidity and Capital Resources

As of September 30, 2012, the Company had a negative working capital of approximately $1.3 million and stockholders' deficiency of approximately $1.6 million. Since inception, we generated net cash proceeds of $2.0 million from equity placements and borrowed $761,000 principally from related parties. The Company has not as yet attained a level of operations which allows it to meet its current overhead and may not attain profitable operations within the next few business operating cycles, nor is there any assurance that such an operating level can ever be achieved. In August 2010, the FDA found that the Company's application for the designation of the Epic product as a Class III device was insufficient, which resulted in the temporary halt to sales by our distributor. In May 2011, the Company was notified by its distributor that it was terminating the distribution agreement. While the Company, can sell its device as a Class I, the Company was not able, at September 30, 2012, to make a determination as to the continuing impact of both of these notices. (See Note 7.) The report of our auditors on our 2011 financial statements includes a reference to going concern risks. While the Company has funded its initial operations with private placements, and secured loans from related parties, there can be no assurance that adequate financing will continue to be available to the Company and, if available, on terms that are favorable to the Company. Our ability to continue as a going concern is also dependent on many events outside of our direct control, including, among other things, our ability to achieve our business goals and objectives, as well as improvement in the economic climate.

Cash Flows

The Company's cash on hand at June 30, 2012 and December 31, 2011 was $86 and $226, respectively.

Operating cash flows: The sales process for our gauze product, which began late in 2009 with limited sales to our sales distributor, was halted in August 2010 as we develop a new marketing strategy and further study the necessity of making application for FDA clearance.

Net cash used in operating activities for the nine months ended September 30, 2012 was $2,127 as compared to $265,365 in the prior year period. For the nine months ended September 30, 2011, our net loss of $1,019,755 was partially offset by increased stock based compensation of $476,450 and an increase in payables and accrued expenses of $189,872.

Investing cash flows: In 2011, the Company paid $4,850 to protect its intellectual property rights. There was no investing cash activity in 2012.

Financing cash flows: Net cash generated from financing of approximately $1,987 and $268,562 in the nine months ended September 30, 2012 and 2011, respectively. The cash generated in both periods represent borrowings from LeadDog Capital LP.

Off-Balance Sheet Arrangements

As of September 30, 2012, we have no off-balance sheet arrangements.

Related Parties

Information concerning related party transactions is included in the financial statements and related notes, appearing elsewhere in this quarterly report on Form 10-Q.

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the periods reported. Actual results could materially differ from those estimates. We have identified the following items as critical accounting policies.

The Company recognizes revenues when persuasive evidence of an arrangement exists, product has been delivered or services have been rendered, the price is fixed or determinable and collectability is reasonably assured. Revenue is recognized net of estimated sales returns and allowances.

Revenues are attributable to the sale of medical products through distributor agreements. The principal terms of the agreements provide that the distributor orders be accompanied by partial payment in advance, which at least equals 50% of total manufactured cost, as defined, for orders for distributor inventory and, in addition, an agreed portion of the distributor's gross profit on special orders. The balance of the manufactured cost is due from the distributor at the time of shipment. The Company is also entitled to an agreed percentage of the distributor's profit on receipt by the distributor. The Company defers all amounts received in advance of shipment and recognizes as revenue the aggregate of amounts invoiced in advance and an estimate of the Company's portion of distributor's profit at the time of shipment.

The Company has recorded as intangibles amounts representing the rights we have obtained to technology, know-how, trademarks and etc. based upon an appraisal of the rights obtained. In the opinion of management there has been no diminution in their value.

We used the Black-Scholes option pricing model to determine the fair value of stock options in connection with stock based compensation charges as well as certain finance cost charges when we issued warrants in connection with the issuance of indebtedness. The determination of the fair value of stock-based payment awards or warrants on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables. These variables include our expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, risk-free interest rate and expected dividends.

Due to our limited history as a public company, we have estimated expected volatility based on the historical volatility of certain companies as determined by management. The risk-free rate for the expected term of each option is based on the U.S. Treasury yield curve in effect at the time of grant. The dividend yield assumption is based on our intent not to issue a dividend as a dividend policy. Due to our limited operating history, management estimated the term to equal the contractual term.

If factors change and we employ different assumptions for estimating stock-based compensation expense in future periods or if we decide to use a different valuation model, the future periods may differ significantly from what we have recorded in the current period and could materially affect our operating income, net income and net income per share.

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that are fully transferable. In addition, option-pricing models require the input of highly subjective assumptions including the expected stock price volatility. Because our stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion the existing models may not necessarily provide a reliable single measure of the fair value of its employee stock options.

Because federal income tax regulations differ from accounting principles generally accepted in the United States, distributions in accordance with tax regulations may differ from net investment income and realized gains recognized for financial reporting purposes. Differences may be permanent or temporary. Permanent differences are reclassified among capital accounts in the financial statements to reflect their tax character. Temporary differences arise when certain items of income, expense, gain or loss are recognized at some time in the future. Differences in classification may also result from the treatment of short-term gains as ordinary income for tax purposes.

The Company evaluates its tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax positions are ''more-likely-than-not'' of being sustained by the applicable tax authority. Tax positions not deemed to meet the "more-likely-than-not" threshold are recorded as an expense in the applicable year. The Company does not have a liability for any unrecognized tax benefits. Management's evaluation of uncertain tax positions may be subject to review and adjustment at a later date based upon factors including, but not limited to, an on-going analysis of tax laws, regulations and interpretations thereof.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Not applicable

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company is in the process of implementing disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the ‘‘Exchange Act’’), that are designed to ensure that information required to be disclosed in the Company’s Exchange Act reports are recorded, processed, summarized, and reported within the time periods specified in rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to our Chief Executive Officer to allow timely decisions regarding required disclosure.

As of September 30, 2012, the Chief Executive Officer and Chief Financial Officer carried out an assessment of the effectiveness of the design and operation of our disclosure controls and procedure and concluded that the Company’s disclosure controls and procedures were not effective as of September 30, 2012, because of the material weakness described below.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company’s annual or interim financial statements will not be prevented or detected on a timely basis.

The material weakness identified during management's assessment was the lack of sufficient resources with SEC, generally accepted accounting principles (GAAP) and tax accounting expertise. This control deficiency did not result in adjustments to the Company’s interim financial statements. However, this control deficiency could result in a material misstatement of significant accounts or disclosures that would result in a material misstatement to the Company’s interim or annual financial statements that would not be prevented or detected. Accordingly, management has determined that this control deficiency constitutes a material weakness.

The Chief Executive Officer and Chief Financial Officer performed additional accounting and financial analyses and other post-closing procedures including detailed validation work with regard to balance sheet account balances, additional analysis on income statement amounts and managerial review of all significant account balances and disclosures in the Quarterly Report on Form 10-Q, to ensure that the Company’s Quarterly Report and the financial statements forming part thereof are in accordance with accounting principles generally accepted in the United States of America. Accordingly, management believes that the financial statements included in this Quarterly Report fairly present, in all material respects, the Company’s financial condition, results of operations, and cash flows for the periods presented.

Changes in Internal Control over Financial Reporting

During the three months ended September 30, 2012, there were no changes in our system of internal controls over financial reporting.

PART II. OTHER INFORMATION

Item 1.
Legal
Proceedings

We are not currently subject to any material pending legal proceedings.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, which could materially affect our business, financial condition and/or operating results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results.

Item 2.
Unregistered
Sales of
Equity
Securities
and Use of
Proceeds

During the period January 1, 2012 through December 31, 2012, there were no issuances of the Company's unregistered securities, except as follows:

Date of Sale	Title of Security	Number Sold	Consideration Received and Description of Underwriting or Other Discounts to Market Price or Convertible Security Afforded to Purchasers	Exemption from Registration Claimed	If Option, Warrant or Convertible Security, terms of exercise or conversion
2012	Common Stock	1,500,000 Shares and 953,739 Shares	Conversion of $19,325 and $38,150 of indebtedness; no commission paid	Section 3(a)(9)	(1)
2012	Common Stock	350,000 Shares	Non-cash compensation	Section 4(2)	Not applicable

			expense of $19,000; no commissions paid		
2012	Common Stock	1,000,000 Shares	Shares issued In exchange for resignation and settlement agreements valued at $40,000; no commissions paid	Section 4(2)	Not applicable

(1) In 2012, 1,500,000 shares and 953,739 shares were issued to LeadDog Capital LLP, an affiliate of the Company, in exchange for the conversion of $19,325 and $38,105, respectively.

The foregoing table does not reflect debt of approximately $351,000 which automatically converted into 11,706,007 on March 31, 2012, but were not issued until May 2013. Exemption for this issuance is under Section 3(a)(9) of the Securities Act.

During the period January 1, 2012 through December 31, 2012, there were repurchases of the Company's unregistered securities.

Item 3.
Defaults
Upon
Senior
Securities

None.

Item 4.
Mine Safety
Disclosures

Not applicable.

Item 5.
Other
Information

Potential Legal Action(s) by the Company

Prior to the filing of this report with the Securities and Exchange Commission, an accounting firm hired by the Company completed a review of certain transactions, the results of which are still being reviewed both internally and externally, to determine a course of action(s), if any, by the Company and the costs associated with such action(s). No assurances can be given that legal action(s), if any, by the Company against any party would have a favorable outcome by the Company.

Item 6.
Exhibits

(a) Exhibits

The following exhibits are filed with this report, or incorporated by reference as noted:

3(i) Articles of Incorporation of the Company, dated May 11, 2006. (1)

If we fail to qualify as a REIT, we would be subject to federal income tax at regular corporate rates. Also, unless the IRS granted us relief under certain statutory provisions, we would remain disqualified as a REIT for four years following the year we first fail to qualify. If we fail to qualify as a REIT, we would have to pay significant income taxes and would therefore have less money available for investments or for distributions to our stockholders. This would likely have a significant adverse effect on the value of our equity. In addition, the tax law would no longer require us to make distributions to our stockholders.

A REIT that fails the quarterly asset tests for one or more quarters will not lose its REIT status as a result of such failure if either (i) the failure is regarded as a de minimis failure under standards set out in the Code, or (ii) the failure is greater than a de minimis failure but is attributable to reasonable cause and not willful neglect. In the case of a greater than de minimis failure, however, the REIT must pay a tax and must remedy the failure within 6 months of the close of the quarter in which the failure was identified. In addition, the Code provides relief for failures of other tests imposed as a condition of REIT qualification, as long as the failures are attributable to reasonable cause and not willful neglect. A REIT would be required to pay a penalty of $50,000, however, in the case of each failure.

We have certain distribution requirements, which could adversely affect our ability to execute our business plan.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
Item 1A. Risk Factors

As a REIT, we must distribute at least 90% of our REIT taxable income (determined without regard to the deduction for dividends paid and by excluding any net capital gain). The required distribution limits the amount we have available for other business purposes, including amounts to fund our growth. Also, it is possible that because of the differences between the time we actually receive revenue or pay expenses and the period we report those items for distribution purposes, we may have to borrow funds on a short-term basis to meet the 90% distribution requirement.

To the extent that we satisfy this distribution requirement, but distribute less than 100% of our taxable income, we will be subject to federal corporate income tax on our undistributed taxable income. In addition, we will be subject to a non-deductible 4% excise tax if the actual amount that we pay out to our stockholders in a calendar year is less than a minimum amount specified under federal tax laws. We intend to make distributions to our stockholders to comply with the REIT qualification requirements of the Code.

From time to time, we may generate taxable income greater than our income for financial reporting purposes prepared in accordance with GAAP, or differences in timing between the recognition of taxable income and the actual receipt of cash may occur. For example, if we purchase agency securities at a discount, we are generally required to accrete the discount into taxable income prior to receiving the cash proceeds of the accreted discount at maturity. If we do not have other funds available in these situations we could be required to borrow funds on unfavorable terms, sell investments at disadvantageous prices or distribute amounts that would otherwise be invested in future acquisitions to make distributions sufficient to enable us to pay out enough of our taxable income to satisfy the REIT distribution requirement and to avoid corporate income tax and the 4% excise tax in a particular year. These scenarios could increase our costs or reduce our stockholders' equity. Thus, compliance with the REIT requirements may hinder our ability to grow, which could adversely affect the value of our common stock.

provisions of the federal tax laws, by any person of more than 9.8% of the lesser of the number or value of the issued and outstanding shares of our common stock and will prohibit ownership, directly or by the attribution provisions of the federal tax laws, by any person of more than 9.8% of the lesser of the number or value of the issued and outstanding shares of any class or series of our preferred stock. Our board of directors, in its sole and absolute discretion, may waive or modify the ownership limit with respect to one or more persons who would not be treated as “individuals” for purposes of the federal tax laws if it is satisfied, based upon information required to be provided by the party seeking the waiver and upon an opinion of counsel satisfactory to the board of directors, that ownership in excess of this limit will not otherwise jeopardize our status as a REIT for federal income tax purposes.

The ownership limit may have the effect of delaying, deferring or preventing a change in control and, therefore, could adversely affect our stockholders' ability to realize a premium over the then-prevailing market price for our common stock in connection with a change in control.

A REIT cannot invest more than 25% of its total assets in the stock or securities of one or more taxable REIT subsidiaries; therefore, our taxable subsidiaries cannot constitute more than 25% of our total assets.

A taxable REIT subsidiary (or TRS) is a corporation, other than a REIT or a qualified REIT subsidiary, in which a REIT owns stock and which elects TRS status. The term also includes a corporate subsidiary in which the TRS owns more than a 35% interest. A REIT may own up to 100% of the stock of one or more taxable REIT subsidiaries. A TRS may earn income that would not be qualifying income if it was earned directly by the parent REIT. Overall, at the close of any calendar quarter, no more than 25% of the value of a REIT's assets may consist of stock or securities of one or more taxable REIT subsidiaries.

The stock and securities of our taxable REIT

Limits on ownership of our common stock could have adverse consequences to you and could limit your opportunity to receive a premium on our stock.

To maintain our qualification as a REIT for federal income tax purposes, not more than 50% in value of the outstanding shares of our capital stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the federal tax laws to include certain entities). Primarily to facilitate maintenance of our qualification as a REIT for federal income tax purposes, our charter prohibits ownership, directly or by the attribution

subsidiaries are expected to represent less than 25% of the value of our total assets. Furthermore, we intend to monitor the value of our investments in the stock and securities of our taxable REIT subsidiaries to ensure compliance with the above-described 25% limitation. We cannot assure you, however, that we will always be able to comply with the 25% limitation so as to maintain REIT status.

Taxable REIT subsidiaries are subject to tax at the regular corporate rates, are not required to distribute dividends, and the amount of dividends a TRS can pay to its parent REIT may be limited by REIT gross income tests.

A TRS must pay income tax at regular corporate rates on any income that it earns. Our taxable REIT subsidiaries will pay corporate income tax on their taxable income, and their after-tax net income will be available for distribution to us. Such income, however, is not required to be distributed.

Moreover, the annual gross income tests that must be satisfied to ensure REIT qualification may limit the amount of dividends that we can receive from our taxable REIT subsidiaries and still maintain our REIT status. Generally, not more than 25% of our gross income can be derived from non-real estate related sources, such as dividends from a TRS. If, for any taxable year, the dividends we received from our taxable REIT subsidiaries, when added to our other items of non-real estate related income, represented more than 25% of our total gross income for the year, we could be denied REIT status, unless we were able to demonstrate, among other things, that our failure of the gross income test was due to reasonable cause and not willful neglect.

The limitations imposed by the REIT gross income tests may impede our ability to distribute assets from our taxable REIT subsidiaries to us in the form of dividends. Certain asset transfers may, therefore, have to be structured as purchase and sale transactions upon which our taxable REIT subsidiaries recognize a taxable gain.

If interest accrues on indebtedness owed by a TRS to its parent REIT at a rate in excess of a commercially reasonable rate, or if transactions between a REIT and a TRS are entered into on other than arm's-length terms, the REIT may be subject to a penalty tax.

If interest accrues on an indebtedness owed by a TRS to that we do not become subject to these taxes, there is no assurance that we will be successful. We may not be able to avoid application of these taxes.

We may in the future choose to pay dividends in our own stock, in which case you may be required to pay income taxes in excess of the cash dividends you receive.

We may in the future distribute taxable dividends that are payable in cash and shares of our common stock at the election of each stockholder. Taxable stockholders receiving such dividends will be required to include the full amount of the dividend as ordinary income to the extent of our current and accumulated earnings and profits for U.S. federal income tax purposes. As a result, stockholders may be required to pay income taxes with respect to such dividends in excess of the cash dividends received. If a U.S. stockholder sells the stock that it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to certain non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect to all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our common stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our common stock.

Even if we remain qualified as a REIT, we may face other tax liabilities that reduce our cash flow.

Even if we remain qualified for taxation as a REIT, we may be subject to certain federal, state and local taxes on our income and assets, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, excise taxes, state or local income, property and transfer taxes, such as mortgage recording taxes, and other taxes. In addition, in order to meet the REIT qualification

its parent REIT at a rate in excess of a commercially reasonable rate, the REIT is subject to tax at a rate of 100% on the excess of (i) interest payments made by a TRS to its parent REIT over (ii) the amount of interest that would have been payable had interest accrued on the indebtedness at a commercially reasonable rate. A tax at a rate of 100% is also imposed on any transaction between a TRS and its parent REIT to the extent the transaction gives rise to deductions to the TRS that are in excess of the deductions that would have been allowable had the transaction been entered into on arm's-length terms. While we will scrutinize all of our transactions with our taxable REIT subsidiaries in an effort to ensure requirements, prevent the recognition of certain types of non-cash income, or to avert the imposition of a 100% tax that applies to certain gains derived by a REIT from dealer property or inventory, we may hold some of our assets through our TRSs or other subsidiary corporations that will be subject to corporate level income tax at regular rates.

Complying with REIT requirements may cause us to forgo otherwise attractive opportunities.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
Item 1A. Risk Factors

To remain qualified as a REIT for federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts that we distribute to our stockholders and the ownership of our stock. We may be required to make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution, and may be unable to pursue investments that would be otherwise advantageous to us in order to satisfy the source-of-income or asset-diversification requirements for qualifying as a REIT. Thus, compliance with the REIT requirements may hinder our ability to make and, in certain cases, to maintain ownership of, certain attractive investments.

Complying with REIT requirements may force us to liquidate otherwise attractive investments.

To remain qualified as a REIT, we must ensure that at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, government securities and qualified REIT real estate assets. The remainder of our investment in securities (other than government securities and qualified real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than government securities and qualified real estate assets) can consist of the securities of any one issuer, and no more than 25% of the value of our total securities can be represented by securities of one or more TRSs. If we fail to comply with these requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences. As a result, we may be required to liquidate from our investment portfolio otherwise attractive investments. These actions could have the effect of reducing our income and amounts available for distribution to our stockholders.

Complying with REIT requirements may limit our ability to hedge effectively and may cause us to incur tax liabilities.

The REIT provisions of the Code could substantially limit our ability to hedge our liabilities. Any income from a properly designated hedging transaction we enter into to manage risk of interest rate changes with respect to borrowings made or to be made, or ordinary obligations incurred or to be incurred, to acquire or carry real estate assets generally does not constitute "gross income" for purposes of the 75% or 95% gross income tests. To the extent that we enter into other types of hedging transactions, the income from those transactions is likely to be treated as non-qualifying income for purposes of both of the gross income tests. As a result of these rules, we may have to limit our use of advantageous hedging techniques or implement those hedges through our TRSs. This could increase the cost of our hedging activities because our TRSs would be subject to tax on gains or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear. In addition, losses in our TRSs will generally not provide any tax benefit, except for being carried forward against future taxable income in the TRSs.

The failure of a mezzanine loan or similar debt to qualify as a real estate asset could adversely affect our ability to qualify as a REIT.

We invest in mezzanine loans and similar debt, for which the IRS has provided a safe harbor but not rules of substantive law. Pursuant to the safe harbor, if a mezzanine loan meets certain requirements, it will be treated by the IRS as a real estate asset for purposes of the REIT asset tests, and interest derived from the mezzanine loan will be treated as qualifying mortgage interest for purposes of the REIT 75% income test. We may acquire mezzanine loans or similar debt that do not meet all of the requirements of this safe harbor. In the event we own a mezzanine loan or similar debt that does not meet the safe harbor, the IRS could challenge such loan's treatment as a real estate asset for purposes

Liquidation of assets may jeopardize our REIT qualification or create additional tax liability for us.

To remain qualified as a REIT, we must comply with requirements regarding the composition of our assets and our sources of income. If we are compelled to liquidate our investments to repay obligations to our lenders, we may be unable to comply with these requirements, ultimately jeopardizing our qualification as a REIT, or we may be subject to a 100% tax on any resultant gain if we sell assets that are treated as dealer property or inventory.

of the REIT asset and income tests and, if such a challenge were sustained, we could fail to qualify as a REIT.

Qualifying as a REIT involves highly technical and complex provisions of the Code.

Qualification as a REIT involves the application of highly technical and complex Code provisions for which only limited judicial and administrative authorities exist. Even a technical or inadvertent violation could jeopardize our REIT qualification. Our qualification as a REIT depends on our satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis. In addition, our ability to satisfy the REIT qualification requirements depends in part on the actions of third parties over which we have no control or only limited influence, including in cases where we own an equity interest in an entity that is classified as a partnership for federal income tax purposes.

The 100% tax on prohibited transactions will limit our ability to engage in transactions, including certain methods of structuring CMOs, which would be treated as prohibited transactions for federal income tax purposes.

The term "prohibited transaction" generally includes a sale or other disposition of property (including agency securities, but other than foreclosure property, as discussed below) that is held primarily for sale to customers in the ordinary course of a trade or business by us or by a borrower that has issued a shared appreciation mortgage or similar debt instrument to us. We could be subject to this tax if we were to dispose of or structure CMOs in a manner that was treated as a prohibited transaction for federal income tax purposes.

We intend to conduct our operations at the REIT level so that no asset that we own (or are treated as owning) will be treated as, or as having been, held for sale to customers, and that a sale of any such asset will not be treated as having been in the ordinary course of our business. As a result, we may choose not to engage in certain transactions at the REIT level, and may limit the structures we utilize for our CMO transactions, even though the sales or structures might otherwise be beneficial to us. In addition, whether property is held

New legislation or administrative or judicial action, in each instance potentially with retroactive effect, could make it more difficult or impossible for us to remain qualified as a REIT.

The present federal income tax treatment of REITs may be modified, possibly with retroactive effect, by legislative, judicial or administrative action at any time, which could affect the federal income tax treatment of an investment in us. The federal income tax rules dealing with REITs constantly are under review by persons involved in the legislative process, the IRS and the U.S. Treasury Department, which results in statutory changes as well as frequent revisions to regulations and interpretations. Revisions in federal tax laws and interpretations thereof could affect or cause us to change our investments and commitments and affect the tax considerations of an investment in us.

Uncertainty exists with respect to the treatment of our TBAs for purposes of the REIT asset and income tests.

We purchase and sell Agency mortgage-backed securities through TBAs and recognize income or gains from the disposition of those TBAs, through dollar roll transactions or otherwise, and may continue to do so in the future. While there is no direct authority with respect to the qualification of TBAs as real estate assets or U.S. Government securities for purposes of the 75% asset test or the qualification of income or gains from dispositions of TBAs as gains from the sale of real property (including interests in real property and interests in mortgages on real property) or other qualifying income for purposes of the 75% gross income test, we treat our TBAs as qualifying assets for purposes of the REIT asset tests, and we treat income and gains from our TBAs as qualifying income for purposes of the 75% gross income test, based on an opinion of K&L Gates LLP substantially to the effect that (i) for purposes of the REIT asset tests, our ownership of a TBA should be treated as ownership of the underlying agency securities, and (ii) for purposes of the 75% REIT gross income test, any gain recognized by us in connection with the settlement of our TBAs should be treated as gain from the sale or disposition of the underlying agency

"primarily for sale to customers in the ordinary course of a trade or business" depends on the particular facts and circumstances. No assurance can be given that any property that we sell will not be treated as property held for sale to customers, or that we can comply with certain safe-harbor provisions of the Code that would prevent such treatment. The 100% tax does not apply to gains from the sale of property that is held through a TRS or other taxable corporation, although such income will be subject to tax in the hands of the corporation at regular corporate rates. We intend to structure our activities to avoid prohibited transaction characterization.

securities. Opinions of counsel are not binding on the IRS, and no assurance can be given that the IRS will not successfully challenge the conclusions set forth in such opinions. In addition, it must be emphasized that the opinion of K&L Gates LLP is based on various assumptions relating to our TBAs and is conditioned upon fact-based representations and covenants made by our management regarding our TBAs. No assurance can be given that the IRS would not assert that such assets or income are not qualifying assets or income. If the IRS were to successfully challenge the opinion of K&L Gates LLP, we could be subject to a penalty tax or we could fail to remain qualified as a REIT if a sufficient portion of our assets consists of TBAs or a sufficient portion of our income consists of income or gains from the disposition of TBAs.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
Item 1A. Risk Factors

Dividends payable by REITs generally do not qualify for the reduced tax rates on dividend income from regular corporations.

Qualified dividend income payable to U.S. stockholders that are individuals, trusts and estates is subject to the reduced maximum tax rate applicable to capital gains. Dividends payable by REITs, however, generally are not eligible for the reduced rates. The more favorable rates applicable to regular corporate qualified dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including our common stock. Tax rates could be changed in future legislation.

Risks of Ownership of Our Common Stock

The market price and trading volume of our shares of common stock may be volatile and issuances of large amounts of shares of our common stock could cause the market price of our common stock to decline.

If we issue a significant number of shares of common stock or securities convertible into common stock in a short period of time, there could be a dilution of the existing common stock and a decrease in the market price of the common stock.

The market price of our shares of common stock may be highly volatile and could be subject to wide fluctuations. In addition, the trading volume in our shares of common stock may fluctuate and cause significant price variations to occur. We cannot assure you that the market price of our shares of common stock will not fluctuate or decline significantly in the future. Some of the factors that could negatively affect our share price or result in fluctuations in the price or trading volume of our shares of common stock include those set forth under "Special Note Regarding Forward-Looking Statements" as well as:

- an inability to meet or exceed securities analysts' estimates or expectations;
- increases in market interest rates;
- hedging or arbitrage trading activity in our shares of common stock;
- capital commitments;
- changes in market valuations of similar companies;
- adverse market reaction to any increased indebtedness we incur in the future;
- additions or departures of management personnel;
- actions by institutional stockholders;
- speculation in the press or investment community;
- changes in our distribution policy;
- general market and economic conditions; and
- future sales of our shares of common stock or securities convertible into, or exchangeable or exercisable for, our shares of common stock.

Holders of our shares of common stock will be subject to the risk of volatile market prices and wide fluctuations in the market price of our shares of common stock. These factors may cause the market price of our shares of common stock to decline, regardless of our financial condition, results of operations, business or prospects. It is impossible to assure you that the market prices of our shares of common stock will not fall in the future.

There may be future sales or other dilution of our equity, which may adversely affect the market price of our common stock.

Under our charter, we have 2,000,000,000 authorized shares of capital stock, par value of $0.01 per share. Sales of a substantial number of shares of our common stock or other equity-related securities in the public market, or any hedging or arbitrage trading activity that may develop involving our common stock, could depress the market price of our common stock and impair our ability to raise capital through the sale of additional equity securities. We cannot predict the effect that future sales of our common stock or other equity-related securities would have on the market

actual or anticipated variations in our quarterly operating results or business prospects;
changes in our earnings estimates or publication of research reports about us or the real estate industry;

price of our common stock.

Our charter does not permit ownership of over 9.8% of our common or preferred stock and attempts to acquire our common or preferred stock in excess of the 9.8% limit are void without prior approval from our board of directors.

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ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
Item 1A. Risk Factors

For the purpose of preserving our REIT qualification and for other reasons, our charter prohibits direct or constructive ownership by any person of more than 9.8% of the lesser of the total number or value of the outstanding shares of our common stock or more than 9.8% of the outstanding shares of our preferred stock. Our charter's constructive ownership rules are complex and may cause the outstanding stock owned by a group of related individuals or entities to be deemed to be constructively owned by one individual or entity. As a result, the acquisition of less than 9.8% of the outstanding stock by an individual or entity could cause that individual or entity to own constructively in excess of 9.8% of the outstanding stock and thus be subject to our charter's ownership limit. Any attempt to own or transfer shares of our common or preferred stock in excess of the ownership limit without the consent of the board of directors shall be void and will result in the shares being transferred by operation of law to a charitable trust.

Provisions contained in Maryland law that are reflected in our charter and bylaws may have an anti-takeover effects, potentially preventing investors from receiving a "control premium" for their shares.

Provisions contained in our charter and bylaws, as well as Maryland corporate law, may have anti-takeover effects that delay, defer or prevent a takeover attempt, which may prevent stockholders from receiving a "control premium" for their shares. For example, these provisions may defer or prevent tender offers for our common stock or purchases of large blocks of our common stock, thereby limiting the opportunities for our stockholders to receive a premium for their common stock over then-prevailing market prices. These provisions include the following:

Ownership limit. The ownership limit in our charter limits related investors including, among other things, any voting group, from acquiring over 9.8% of our common stock or more than 9.8% of our preferred stock without the consent of our board of directors.

Preferred Stock. Our charter authorizes our board of

Maryland control share acquisition statute. Maryland law limits the voting rights of "control shares" of a corporation in the event of a "control share acquisition."

The repurchase right in our Convertible Senior Notes triggered by a fundamental change could discourage a potential acquirer.

If we undergo certain fundamental changes, such as the acquisition of 50% of the voting power of all shares of our common equity entitled to vote generally in the election of directors, holders of our Convertible Senior Notes may require us to repurchase all or a portion of their notes at a price equal to 100% of the principal amount of the notes to be purchased plus any accrued and unpaid interest up to, but excluding, the repurchase date. We will pay for all notes so repurchased with shares of our common stock using a price per share equal to the average daily volume-weighted average price of our common stock for the 20 consecutive trading days ending on the trading day immediately prior to the occurrence of the fundamental change. The issuance of these shares of common stock upon certain fundamental changes could discourage a potential acquirer.

Broad market fluctuations could negatively impact the market price of our shares of common stock.

The stock market has experienced extreme price and volume fluctuations that have affected the market price of many companies in industries similar or related to ours and that have been unrelated to these companies' operating performance. These broad market fluctuations could reduce the market price of our shares of common stock. Furthermore, our operating results and prospects may be below the expectations of public market analysts and investors or may be lower than those of companies with comparable market capitalizations, which could lead to a material decline in the market price of our shares of common stock.

We have not established a minimum dividend payment level.

directors to issue preferred stock in one or more classes and to establish the preferences and rights of any class of preferred stock issued. These actions can be taken without soliciting stockholder approval.

Maryland business combination statute. Maryland law restricts the ability of holders of more than 10% of the voting power of a corporation's shares to engage in a business combination with the corporation.

We intend to pay quarterly dividends and to make distributions to our stockholders in amounts such that all or substantially all of our taxable income in each year (subject to certain adjustments) is distributed. This enables us to qualify for the tax benefits accorded to a REIT under the Code. We have not established a minimum dividend payment level and our ability to pay dividends may be adversely affected for the reasons described in this section. All distributions will be made at the discretion of our board of directors and will depend on our earnings, our financial condition, maintenance of our REIT status and such other factors as our board of directors may deem relevant from time to time.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
Item 1A. Risk Factors

Our reported GAAP financial results differ from the taxable income results that impact our dividend distribution requirements and, therefore, our GAAP results may not be an accurate indicator of future taxable income and dividend distributions.

Generally, the cumulative net income we report over the life of an asset will be the same for GAAP and tax purposes, although the timing of this income recognition over the life of the asset could be materially different. Differences exist in the accounting for GAAP net income and REIT taxable income that can lead to significant variances in the amount and timing of when income and losses are recognized under these two measures. Due to these differences, our reported GAAP financial results could materially differ from our determination of taxable income.

Regulatory Risks

Loss of Investment Company Act exemption would adversely affect us.

We intend to conduct our business so as not to become regulated as an investment company under the Investment Company Act of 1940, as amended (or Investment Company Act). If we fail to qualify for this exemption, our ability to use leverage would be substantially reduced, and we would be unable to conduct our business as we currently conduct it.

We currently rely on the exemption from registration provided by Section 3(c)(5)(C) of the Investment Company Act. Section 3(c)(5)(C) as interpreted by the staff of the SEC, requires us to invest at least 55% of our assets in "mortgages and other liens on and interest in real estate" (or Qualifying Real Estate Assets) and at least 80% of our assets in Qualifying Real Estate Assets plus real estate related assets. The assets that we acquire, therefore, are limited by the provisions of the Investment Company Act and the rules and regulations promulgated under the Investment Company Act.

We rely on an interpretation that "whole pool certificates"

On August 31, 2011, the SEC issued a concept release titled "Companies Engaged in the Business of Acquiring Mortgages and Mortgage-Related Instruments" (SEC Release No. IC-29778). Under the concept release, the SEC is reviewing interpretive issues related to the Section 3(c)(5)(C) exemption. Among other things, the SEC requested comments on whether it should revisit whether Agency Whole Pool Certificates may be treated as interests in real estate (and presumably Qualifying Real Estate Assets) and whether companies, such as us, whose primary business consists of investing in Agency Whole Pool Certificates are the type of entities that Congress intended to be encompassed by the exclusion provided by Section 3(c)(5)(C). The potential outcomes of the SEC's actions are unclear as is the SEC's timetable for its review and actions.

If the SEC determines that any of these securities are not Qualifying Real Estate Assets or real estate related assets, adopts a contrary interpretation with respect to Agency Whole Pool Certificates or otherwise believes we do not satisfy the exemption under Section 3(c)(5)(C), we could be required to restructure our activities or sell certain of our assets. The net effect of these factors will be to lower our net interest income. If we fail to qualify for exemption from registration as an investment company, our ability to use leverage would be substantially reduced, and we would not be able to conduct our business as described. Our business will be materially and adversely affected if we fail to qualify for this exemption.

Compliance with proposed and recently enacted changes in securities laws and regulations increases our costs.

The Dodd-Frank Act contains many regulatory changes and calls for future rulemaking that may affect our business, including, but not limited to resolutions involving derivatives, risk-retention in securitizations and short-term financings. We are evaluating, and will continue to evaluate the potential impact of regulatory change under the Dodd-Frank Act.

that are issued or guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae (or Agency Whole Pool Certificates) are Qualifying Real Estate Assets under Section 3(c)(5)(C). This interpretation was promulgated by the SEC staff in a no-action letter over 30 years ago, was reaffirmed by the SEC in 1992 and has been commonly relied upon by mortgage REITs.

Changes in laws or regulations governing our operations or our failure to comply with those laws or regulations may adversely affect our business.

We are subject to regulation by laws at the local, state and federal level, including securities and tax laws and financial accounting and reporting standards. These laws and regulations, as well as their interpretation, may be changed from time to time. Accordingly, any change in these laws or regulations or the failure to comply with these laws or regulations could have a material adverse impact on our business. Certain of these laws and regulations pertain specifically to REITs.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our executive and administrative office is located at 1211 Avenue of the Americas New York, New York 10036, telephone 212-696-0100. This office is leased under a non-cancelable lease expiring September 30, 2025.

For a description of the commercial real estate properties we own as part of our investment portfolio, refer to section titled "Schedule III – Real Estate and Accumulated Depreciation" of Item 15 "Exhibits, Financial Statement Schedules."

ITEM 3. LEGAL PROCEEDINGS

From time to time, we are involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material effect on our consolidated financial statements.

ITEM 4. MINE SAFETY DISCLOSURES

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock began trading publicly on October 8, 1997 and is traded on the New York Stock Exchange under the trading symbol "NLY." As of February 20, 2015, we had 947,675,799 shares of common stock issued and outstanding which were held by approximately 432,000 beneficial holders.

The following table sets forth, for the periods indicated, the high, low, and closing prices per share of our common stock as reported on the New York Stock Exchange composite tape and the cash dividends declared per share of our common stock.

	2014				2013			
	High	Low	Close	Common Dividends Declared Per Share	High	Low	Close	Common Dividends Declared Per Share
First quarter	$11.51	$9.92	$10.97	$0.30	$16.18	$14.12	$15.89	$0.45
Second quarter	$11.87	$10.78	$11.43	$0.30	$16.00	$12.16	$12.57	$0.40
Third quarter	$11.95	$10.66	$10.68	$0.30	$12.69	$10.63	$11.58	$0.35
Fourth quarter	$11.65	$10.68	$10.81	$0.30	$12.22	$9.66	$9.97	$0.30

On February 20, 2015, the last reported sale price of our common stock on the New York Stock Exchange was $10.72 per share.

We intend to pay quarterly dividends and to distribute to our stockholders all or substantially all of our taxable income in each year (subject to certain adjustments). This will enable us to qualify for the tax benefits accorded to a REIT under the Code. We have not established a minimum dividend payment level and our ability to pay dividends may be adversely affected for the reasons described under the caption "Risk Factors." All distributions will be made at the discretion of our board of directors and will depend on our earnings, our financial condition, maintenance of our REIT status and such other factors as our board of directors may deem relevant from time to time. No dividends can be paid on our common stock unless we have paid full cumulative dividends on our preferred stock. From the date of issuance of our preferred stock through December 31, 2014, we have paid full cumulative dividends on our preferred stock.

Share Performance Graph

The following graph and table set forth certain information comparing the yearly percentage change in cumulative total return on our common stock to the cumulative total return of the Standard & Poor's Composite 500 stock Index or S&P 500 Index, and the Bloomberg REIT Mortgage Index, or BBG REIT index, an industry index of mortgage REITs. The comparison is for the period from December 31, 2009 to December 31, 2014 and assumes the reinvestment of dividends. The graph and table assume that $100 was invested in our common stock and the two other indices on December 31, 2009. Upon written request we will provide stockholders with a list of the REITs included in the BBG REIT Index.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters And Issuer Purchases Of Equity Securities

	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014
Annaly Capital Management, Inc.	100	119	121	122	107	119
S&P 500 Index	100	115	117	135	176	198
BBG Reit Index	100	123	121	139	137	154

The information in the share performance graph and table has been obtained from sources believed to be reliable, but neither its accuracy nor its completeness can be guaranteed. The historical information set forth above is not necessarily indicative of future performance. Accordingly, we do not make or endorse any predictions as to future share performance.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters And Issuer Purchases Of Equity Securities

Equity Compensation Plan Information

On May 27, 2010, at our 2010 Annual Meeting of Stockholders, our stockholders approved the 2010 Equity Incentive Plan. The 2010 Equity Incentive Plan authorizes the Compensation Committee of the board of directors to grant options, stock appreciation rights, dividend equivalent rights, or other share-based awards, including restricted shares up to an aggregate of 25,000,000 shares, subject to adjustments as provided in the 2010 Equity Incentive Plan. For a description of our 2010 Equity Incentive Plan, see Notes to Consolidated Financial Statements.

We had previously adopted a long term stock incentive plan for executive officers, key employees and nonemployee directors (the Incentive Plan). Since the adoption of the 2010 Equity Incentive Plan, no further awards will be made under the Incentive Plan, although existing awards will remain effective. All stock options issued under the 2010 Equity Incentive Plan and Incentive Plan (the Incentive Plans) were issued at the current market price on the date of grant, subject to an immediate or four year vesting in four equal installments with a contractual term of 5 or 10 years. The grant date fair value is calculated using the Black-Scholes option valuation model. For a description of our Incentive Plan, see Notes to Consolidated Financial Statements.

The following table provides information as of December 31, 2014 concerning shares of our common stock authorized for issuance under the Incentive Plans.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights (dollars in thousands)	Number of securities remaining available for future issuance under the Incentive Plans (excluding previously issued)
Equity compensation plans approved by security holders	2,259,335	15.35	28,156,221
Equity compensation plans not approved by security holders	-	-	-
Total	2,259,335	15.35	28,156,221

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
Item 6. Selected Financial Data

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data should be read in conjunction with the more detailed information contained in the Financial Statements and Notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Form 10-K.

SELECTED FINANCIAL DATA

	For the Years Ended December 31,				
Statement of Operations Data:	2014	2013	2012	2011	2010
	(dollars in thousands, except per share data)				
Interest income	$ 2,632,647	$ 2,918,562	$ 3,259,145	$ 3,579,618	$ 2,683,134
Interest expense	512,659	624,714	667,172	480,326	428,225
Net interest income	2,119,988	2,293,848	2,591,973	3,099,292	2,254,909
Other income (loss)	(2,747,604)	1,676,144	(584,602)	(2,459,576)	(783,293)
General and administrative expenses	209,338	232,081	235,559	237,344	171,847
Income (loss) before income taxes and income from equity method investment in affiliate	(836,954)	3,737,911	1,771,812	402,372	1,299,769
Income (loss) from equity method investment in affiliate	-	-	-	1,140	2,945
Income taxes	5,325	8,213	35,912	59,051	35,434
Net income (loss)	(842,279)	3,729,698	1,735,900	344,461	1,267,280
Net income (loss) attributable to noncontrolling interest	(196)	-	-	-	-
Net income (loss) attributable to Annaly	(842,083)	3,729,698	1,735,900	344,461	1,267,280
Dividends on preferred stock	71,968	71,968	39,530	16,854	18,033
Net income (loss) available (related) to common	$ (914,051)	$ 3,657,730	$ 1,696,370	$ 327,607	$ 1,249,247

stockholders					
Net income (loss) per share available (related) to common stockholders:					
Basic	$ (0.96)	$ 3.86	$ 1.74	$ 0.37	$ 2.12
Diluted	$ (0.96)	$ 3.74	$ 1.71	$ 0.37	$ 2.04
Weighted average number of common shares outstanding:					
Basic	947,539,294	947,337,915	972,902,459	874,212,039	588,192,659
Diluted	947,539,294	995,557,026	1,005,755,057	874,518,938	625,307,174
Other Financial Data:					
Total assets	$ 88,355,367	$ 81,922,460	$ 133,452,295	$ 109,630,002	$ 83,026,590
6.00% Series B Cumulative Convertible Preferred Stock	$ -	$ -	$ -	$ 32,272	$ 40,032
Total equity	$ 13,333,781	$ 12,405,055	$ 15,924,444	$ 15,760,642	$ 9,864,900
Dividends declared per common share	$ 1.20	$ 1.50	$ 2.05	$ 2.44	$ 2.65

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Special Note Regarding Forward-Looking Statements

Certain statements contained in this annual report, and certain statements contained in our future filings with the Securities and Exchange Commission (the SEC or the Commission), in our press releases or in our other public or stockholder communications may not be based on historical facts and are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements, which are based on various assumptions, (some of which are beyond our control) 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 financing, changes in the market value of our assets, changes in business conditions and the general economy, our ability to grow the commercial mortgage business, credit risks related to our investments in commercial real estate assets and corporate debt, our ability to consummate any contemplated investment opportunities and other corporate transactions, changes in governmental regulations affecting our business, our ability to maintain our classification as a real estate investment trust (or REIT) for federal income tax purposes, our ability to maintain our exemption from registration under the Investment Company Act of 1940, as amended (or Investment Company Act), and risks associated with the business of our subsidiaries, including the investment advisory businesses of our subsidiary, and risks associated with the broker dealer business of our subsidiary. For a discussion of the risks and uncertainties which could cause actual results to differ from those contained in the forward-looking statements, see the information under the caption “Risk Factors” contained in this Form 10-K. 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.

All references to “Annaly”,“we,” “us,” or “our” mean Annaly Capital Management, Inc. and all entities owned by us, except where it is made clear that the term means only the parent company. Refer to the section titled “Glossary of Terms” located at the end of this Item 7 for definitions of commonly used terms in this annual report on Form 10-K.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
Item 7. Management’s Discussion and Analysis

INDEX TO ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
Item 7. Management's Discussion and Analysis

Overview

We are a leading mortgage REIT that is externally managed by Annaly Management Company LLC (or Manager). Our common stock is listed on the New York Stock Exchange under the symbol "NLY." Since our founding in 1997, we have strived to generate net income for distribution to our stockholders through the prudent selection and management of our investments. We own a portfolio of real estate related investments. We use our capital coupled with borrowed funds to invest in real estate related investments, earning the spread between the yield on our assets and the cost of our borrowings and hedging activities. For a full discussion of our business, refer to the section titled "Business Overview" of Item 1 "Business."

Business Environment

We maintained the size of our Agency mortgage-backed securities portfolio in the fourth quarter of 2014 and remain cautious as the Federal Reserve (or Fed) ceased adding to their Agency mortgage backed securities portfolio in October of this year. The Fed has concluded the third round of their asset purchasing program known as Quantitative Easing 3 (QE3), and increases in the federal funds target rate are expected to begin in 2015. Furthermore, the recent decline in longer term interest rates has increased mortgage prepayment risk which may adversely impact MBS cash flows.

Economic Environment

Economic growth, as measured by real gross domestic product (or GDP), recovered from a seasonally-adjusted annualized decline of 2.1% in the first quarter of 2014 to subsequently grow 4.6% and 5.0% in the second and third quarters of 2014, respectively, according to the Bureau of Economic Analysis. The year-over-year growth rate of 2.7% was slightly below the 3.1% growth rate in 2013. The components were mixed but generally positive, with consumer spending and private investment growing at approximately the same pace as 2013. The persistent fall in oil prices as well as continued employment gains through the fourth quarter of 2014 This is only slightly above the Fed's own estimate of the mandate-consistent unemployment rate, which was placed at 5.2-5.5% as of December 17, 2014. However, labor market slack remains in long-term unemployment, the part-time employment share and those out of the labor force who desire a job, all of which remain elevated relative to long-term averages. Inflation remained below the Fed's 2% target for the entirety of the year, as measured by the Personal Consumer Expenditure Chain Price Index (or PCE), and weakened in the fourth quarter of 2014 as oil prices suffered sharp declines. The headline PCE measure fell to 0.8% year-over-year in December 2014, down from December 2013 and 1.6% in June 2014, and is expected to fall further as the decline in energy prices take effect. The more stable core PCE measure, which excludes food and energy prices, also remained below target at 1.3% year-over-year in December 2014, unchanged from December 2013. The Federal Open Market Committee (FOMC or the Committee) has noted that "inflation persistently below its 2% objective could pose risks to economic performance," and believes the current level of inflation below target is due to "transitory effects of lower energy prices and other factors" and expects inflation to rise gradually toward 2%.

The FOMC has aimed to support its dual mandate through both keeping its target rate at the zero lower bound and conducting open market operations, or Quantitative Easing (or QE). QE3 was announced on September 13, 2012 as the FOMC statement indicated they would begin making monthly purchases of Agency mortgage-backed securities at the initial pace of $40 billion. In addition, the FOMC announced that it would maintain its existing accommodative policy of reinvesting principal payments from its holdings of Agency mortgage-backed securities purchases into new Agency mortgage-backed securities as part of its stimulus. Two meetings later, on December 12, 2012, the FOMC announced it would also begin purchasing longer-term Treasury securities at a monthly pace of $45 billion. This program was open-ended in nature, stating as its intent "to support a stronger economic recovery and to help ensure that inflation, over time, is at the rate most consistent with its dual mandate." To further

provides optimism for U.S. growth in the coming quarters.

The Fed currently conducts monetary policy with a dual mandate: full employment and price stability. The employment situation improved vastly in 2014, with average monthly employment gains of 260,000 through December 2014 compared to 199,000 per month in 2013, according to the Bureau of Labor Statistics. The unemployment rate continued to decline, down to 5.6% in December 2014 compared to 6.7% in December 2013.

enhance their accommodative policy, at their December 12, 2012, meeting, the FOMC gave “forward guidance” on their future policy rate increases as follows: “the Committee expects that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the asset purchase program ends and the economic recovery strengthens.”

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At their December 17-18, 2013 meeting, the FOMC decided to reduce monthly purchases of U.S. Treasury bonds and Agency mortgage-backed securities by $5 billion each, therefore purchasing $40 billion in U.S. Treasuries and $35 billion in Agency mortgage-backed securities per month beginning in January 2014. The Fed kept this "taper" in place throughout the year, reducing monthly purchases by a total of $10 billion during each meeting in 2014, eventually ending their program by reducing purchases by the final combined $15 billion at their October 28-29, 2014 meeting. Simultaneous to the release of their September 17, 2014 statement, the FOMC released their "policy normalization principles and plans," in which they stated their intention to reduce their security holdings primarily by ceasing reinvestments only after their first rate hike and that they currently do not anticipate selling agency mortgage-backed securities as part of their normalization process.

Markets had muted reactions to the gradual lessening of stimulus, with financial conditions remaining more accommodative than normal (as measured by the Bloomberg Financial Conditions Index). Longer-term rates declined throughout the year, largely driven by declining market-based inflation expectations and inflation risk premium, in large part owing to significant declines in oil prices. The mortgage basis, or spread between the 30-year Agency mortgage-backed security current coupon and 10-year U.S. Treasury, remained stable throughout the year amidst muted volatility.

The following table summarizes interest rates as of each date presented:

	As of December 31,		
	2014	2013	2012
30-Year mortgage current coupon	2.83 %	3.61 %	2.23 %
Mortgage basis	66 bps	58 bps	47 bps
10-Year U.S. Treasury rate	2.17 %	3.03 %	1.76 %
LIBOR:			
1-Month	0.17 %	0.17 %	0.21 %
6-Month	0.36 %	0.35 %	0.51 %

Financial Regulatory Reform

Uncertainty remains surrounding financial regulatory reform and its impact on the markets and the broader economy. In particular, the government is attempting to change its involvement through the Agencies in the mortgage market. There have been numerous legislative initiatives introduced regarding the Agencies, and it is unclear which approach, if any, may become law. In addition, regulators remain focused on the wholesale funding markets, bank capital levels and shadow banking. It is difficult to predict the ultimate legislative and other regulatory outcomes of these efforts. We continue to monitor these legislative and regulatory developments and evaluate their potential impact on our business.

Results of Operations

The results of our operations are affected by various factors, many of which are beyond our control. Certain of such risks and uncertainties are described herein (see "Special Note Regarding Forward-Looking Statements") and in Part I, Item 1A. "Risk factors".

Net Income (Loss) Summary

The following table presents summarized financial information related to our results of operations as of and

for the years ended December 31, 2014, 2013 and 2012.

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	As of and for the Years Ended December 31,		
	2014	2013	2012
	(dollars in thousands, except per share data)		
Interest income	$ 2,632,647	$ 2,918,562	$ 3,259,145
Interest expense	512,659	624,714	667,172
Net interest income	2,119,988	2,293,848	2,591,973
Other income (loss)	(2,747,604)	1,676,144	(584,602)
General and administrative expenses	209,338	232,081	235,559
Income (loss) before income taxes	(836,954)	3,737,911	1,771,812
Income taxes	5,325	8,213	35,912
Net income (loss)	(842,279)	3,729,698	1,735,900
Net income (loss) attributable to noncontrolling interest	(196)	-	-
Net income (loss) attributable to Annaly	(842,083)	3,729,698	1,735,900
Dividends on preferred stock	71,968	71,968	39,530
Net income (loss) available (related) to common stockholders	$ (914,051)	$ 3,657,730	$ 1,696,370
Net income (loss) per share available (related) to common stockholders:			
Basic	$ (0.96)	$ 3.86	$ 1.74
Diluted	$ (0.96)	$ 3.74	$ 1.71
Weighted average number of common shares outstanding:			
Basic	947,539,294	947,337,915	972,902,459
Diluted	947,539,294	995,557,026	1,005,755,057
Non-GAAP financial measures (1):			
Economic interest expense	$ 1,338,019	$ 1,533,008	$ 1,560,941
Economic net interest income	$ 1,294,628	$ 1,385,554	$ 1,698,204
Core earnings	$ 1,147,739	$ 1,222,959	$ 1,537,732
Core earnings per average basic common share	$ 1.14	$ 1.21	$ 1.54
Other information:			
Asset portfolio at period-end	$ 84,828,267	$ 75,120,622	$ 127,036,719
Average total assets	$ 85,446,307	$ 107,355,670	$ 126,649,002
Average equity	$ 12,972,683	$ 13,968,979	$ 16,206,642
Leverage at period-end (2)	5.4:1	5.0:1	6.5:1
Capital ratio	15.1 %	15.1 %	11.9 %
Net interest margin	1.52 %	1.31 %	1.45 %
Net interest spread	1.21 %	1.09 %	1.27 %
Return on average total assets	(0.99 %)	3.47 %	1.37 %
Return on average equity	(6.49 %)	26.70 %	10.71 %
Constant prepayment rate	8 %	14 %	20 %
Common stock book value per share	$ 13.10	$ 12.13	$ 15.85

(1) See “Non-GAAP Financial Measures” for a reconciliation of our non-GAAP measures to their corresponding GAAP amounts.

(2) Includes repurchase agreements, Convertible Senior Notes and non-recourse securitized debt, loan participation and mortgages payable.

This Management Discussion and Analysis section contains analysis and discussion of non-GAAP measurements. See “Non-GAAP Financial Measures” for further information.

2014 Compared with 2013

GAAP
Net income (loss) was ($842.3) million, which includes ($0.2) million attributable to a noncontrolling interest, or ($0.96) per average basic common share, for the year ended December 31, 2014 compared to $3.7 billion, or $3.86 per average basic common share, for the same period in 2013. We attribute the majority of the change in net income (loss) to the change in unrealized gains (losses) on interest rate swaps which resulted in a loss of $948.8 million for the year ended December 31, 2014 compared to a gain of $2.0 billion for the same period in 2013. The change in the fair value of interest rate swaps was primarily attributable to the downward trend in interest rates experienced during the year ended December 31, 2014 compared to the rise in interest rates experienced during the same period in 2013. The change in unrealized gains (losses) on interest rate swaps were partially offset by the reversal of unrealized losses in connection with interest rate swap positions that were terminated in 2014, which resulted in a $677.5 million increase in realized losses on the termination of interest rate swaps for the year ended December 31, 2014 compared to the same period in 2013.

Non-GAAP
Core earnings were $1.1 billion, or $1.14 per average basic common share, for the year ended December 31, 2014, a decrease of $75.2 million compared to $1.2 billion, or $1.21 per average basic common share, for the same period in 2013. We attribute the majority of the change to a decline in interest income of $285.9 million, primarily attributable to a decline in average Interest Earning Assets, partially offset by lower amortization expense and a decline in economic interest expense of $195.0 million, primarily attributable to a decline in average Interest Bearing Liabilities and swap notional amounts, for the year ended December 31, 2014 compared to the same period in 2013.

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2013 Compared with 2012

GAAP
Net income (loss) increased $2.0 billion to $3.7 billion, or $3.86 per average basic common share for the year ended December 31, 2013, compared to $1.7 billion, or $1.74 per average basic common share, for the year ended December 31, 2012. We attribute the majority of the increase to the change in unrealized gains (losses) on interest rate swaps, which resulted in a gain of $2.0 billion for the year ended December 31, 2013 compared to a loss of $32.2 million for the same period in 2012. The change in the fair value of interest rate swaps was primarily attributable to the rise in interest rates experienced during the year ended December 31, 2013.

Non-GAAP
Core earnings were $1.2 billion, or $1.21 per average basic common share, for the year ended December 31, 2013, a decrease of $314.8 million compared to $1.5 billion, or $1.54 per average basic common share, for the same period in 2012. We attribute the majority of the decrease to a decline in economic net interest income of $312.7 million from 2012, primarily attributable to a decline in average Interest Earning Assets.

Non-GAAP Financial Measures

The non-GAAP measurements include the following:

- core earnings;
- core earnings per average basic common share;
- economic interest expense; and
- economic net interest income.

Core earnings represents a non-GAAP measure and 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 Agency interest-only mortgage-backed securities, net gains and losses on trading assets, impairment losses, GAAP net income (loss) attributable to noncontrolling interest and certain other non-recurring gains or losses.

We believe that core earnings, core earnings per average basic common share, economic interest expense and economic net interest income provide meaningful information to consider, in addition to the respective amounts prepared in accordance with GAAP. The non-GAAP measures help us to evaluate our financial position and performance without the effects of certain transactions and GAAP adjustments that are not necessarily indicative of our current investment portfolio and operations.

Our presentation of non-GAAP financial measures has important limitations. Other market participants may calculate core earnings, core earnings per average basic common share, economic interest expense and economic net interest income differently than we calculate them, making comparative analysis difficult.

Although we believe that the calculation of non-GAAP financial measures described above helps evaluate and measure our financial position and performance without the effects of certain transactions, it is of limited usefulness as an analytical tool. Therefore, the non-GAAP financial measures should not be viewed in isolation and are not a substitute for net income (loss), net income (loss) per basic share available (related) to common stockholders, interest expense and net interest income computed in accordance with GAAP.

Core Earnings

The following table provides GAAP measures of net income (loss) and net income (loss) per basic share available to common stockholders for the years ended December 31, 2014, 2013 and 2012 and details with respect to reconciling the aforementioned line items on a non-GAAP basis:

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	For the Years Ended December 31,		
	2014	2013	2012
	(dollars in thousands, except per share data)		
GAAP net income (loss)	$ (842,279)	$ 3,729,698	$ 1,735,900
Adjustments:			
Realized (gains) losses on termination of interest rate swaps	779,333	101,862	2,385
Unrealized (gains) losses on interest rate swaps	948,755	(2,002,200)	32,219
Net (gains) losses on disposal of investments	(93,716)	(403,045)	(432,139)
Net loss on extinguishment of 4% Convertible Senior Notes	-	-	162,340
Net (gains) losses on trading assets	245,495	(1,509)	(22,910)
Net unrealized (gains) losses on interest-only Agency mortgage-backed securities	86,172	(244,730)	59,937
Impairment of goodwill	-	23,987	-
Loss on previously held equity interest in CreXus	-	18,896	-
Other non-recurring expense (1)	23,783	-	-
GAAP net income (loss) attributable to noncontrolling interest	196	-	-
Core earnings	$ 1,147,739	$ 1,222,959	$ 1,537,732
GAAP net income (loss) per average basic common share	$ (0.96)	$ 3.86	$ 1.74
Core earnings per average basic common share	$ 1.14	$ 1.21	$ 1.54

(1) Represents a one-time payment made by FIDAC to Chimera Investment Corp. (Chimera) to resolve issues raised in derivative demand letters sent to Chimera's board of directors. This amount is included as a component of Other income (loss) in the Consolidated Statements of Comprehensive Income (Loss).

Economic Interest Expense and Economic Net Interest Income

We believe the economic value of our investment strategy is depicted by the economic net interest income we earn. We calculate economic net interest income by determining our GAAP net interest income and reducing it by realized losses on interest rate swaps, which represents interest expense on interest rate swaps. Our economic interest expense, which is composed of interest expense on our Interest Bearing Liabilities plus interest expense on interest rate swaps, reflects total contractual interest payments.

The following table provides GAAP measures of interest expense and net interest income and details with respect to reconciling the aforementioned line items on a non-GAAP basis for each respective period:

	GAAP Interest Expense	Add: Realized Losses on	Economic Interest Expense	GAAP Net Interest Income	Less: Realized Losses on	Economic Net

		Interest Rate Swaps (1)			Interest Rate Swaps (1)	Interest Income
For the Years Ended:			(dollars in thousands)			
December 31, 2014	$512,659	$825,360	$1,338,019	$2,119,988	$825,360	$1,294,628
December 31, 2013	$624,714	$908,294	$1,533,008	$2,293,848	$908,294	$1,385,554
December 31, 2012	$667,172	$893,769	$1,560,941	$2,591,973	$893,769	$1,698,204

(1) Interest expense related to our interest rate swaps is recorded in realized gains (losses) on interest rate swaps on the Consolidated Statements of Operations and Comprehensive Income (Loss).

Interest Income and Average Yield on Interest Earning Assets

Prepayment speeds, as reflected by the Constant Prepayment Rate, or CPR, and interest rates vary according to the type of investment, conditions in financial markets, competition and other factors, none of which can be predicted with any certainty. In general, as prepayment speeds on our Agency mortgage-backed securities portfolio increase, related purchase premium amortization increases, thereby reducing the yield on such assets. The following table presents the weighted average experienced CPR on our Agency mortgage-backed securities portfolio for the periods presented.

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Years Ended	CPR
December 21, 2014	8%
December 31, 2013	14%
December 31, 2012	20%

We had average Interest Earning Assets of $85.2 billion, $105.4 billion and $117.3 billion, and the average yield on Interest Earning Assets was 3.09%, 2.77%, and 2.78% for the years ended December 31, 2014, 2013 and 2012, respectively.

2014 Compared with 2013

Interest income was $2.6 billion for the year ended December 31, 2014, a decrease of $0.3 billion compared to $2.9 billion for the same period in 2013. The decline was primarily due to a $20.2 billion decrease in average Interest Earning Assets, partially offset by lower amortization on our Investment Securities resulting from lower prepayment speeds, for the year ended December 31, 2014 compared to the same period in 2013.

2013 Compared with 2012

Interest income was $2.9 billion for the year ended December 31, 2013, a decrease of $0.4 billion compared to $3.3 billion for the same period in 2012. The decline was primarily due to an $11.9 billion decrease in average Interest Earning Assets, partially offset by lower amortization on our Investment Securities resulting from lower prepayment speeds, for the year ended December 31, 2013 compared to the same period in 2012.

Economic Interest Expense and the Average Cost of Interest Bearing Liabilities

Our largest expense is the average cost of Interest Bearing Liabilities and interest expense on interest rate swaps, which is recorded in realized gains (losses) on interest rate swaps on the Consolidated Statements of Comprehensive Income (Loss). The table below shows our average Interest Bearing Liabilities and average cost of Interest Bearing Liabilities as compared to average one-month and average six month LIBOR and economic interest expense for the periods presented.

Cost of Funds on Average Interest Bearing Liabilities

For the Years Ended:	Average Interest Bearing Liabilities	Interest Bearing Liabilities at Period End	Economic Interest Expense(1)	Average Cost of Interest Bearing Liabilities	Average One-Month LIBOR	Average Six-Month LIBOR	Average One-Month LIBOR Relative to Average Six-Month LIBOR	Average Cost of Interest Bearing Liabilities Relative to Average One-Month LIBOR	Average Cost of Interest Bearing Liabilities Relative to Average Six-Month LIBOR
			(dollars in thousands)						
December 31, 2014	$70,983,100	$72,481,614	$1,338,019	1.88 %	0.16 %	0.33 %	(0.17 %)	1.72 %	1.55 %
December 31, 2013	$91,182,731	$67,066,390	$1,533,008	1.68 %	0.19 %	0.41 %	(0.22 %)	1.49 %	1.27 %

December 31, 2012	$103,362,717	$105,914,990	$1,560,941	1.51 %	0.24 %	0.69 %	(0.45 %)	1.27 %	0.82 %

(1) Economic interest expense includes interest expense on interest rate swaps.

2014 Compared with 2013

Economic interest expense, including interest expense on interest rate swaps, for the year ended December 31, 2014 decreased by $195.0 million when compared to the year ended December 31, 2013, primarily due to the $20.2 billion decline in average Interest Bearing Liabilities and lower swap interest expense on lower average notional balances for the year ended December 31, 2014 compared to the same period in 2013, partially offset by a 20 basis point increase in cost of Interest Bearing Liabilities.

2013 Compared with 2012

Economic interest expense, including interest expense on interest rate swaps, for the year ended December 31, 2013 decreased by $27.9 million when compared to the year ended December 31, 2012, primarily due to the $12.2 billion decline in average Interest Bearing Liabilities for the year ended December 31, 2013 compared to the same period in 2012, partially offset by a 17 basis point increase in the cost of Interest Bearing Liabilities, largely attributable to increased swap expense.

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We do not manage our portfolio to have a pre-designated amount of borrowings at quarter or year end. Our borrowings at period end are a snapshot of our borrowings as of a date, and this number should be expected to differ from average borrowings over the period for a number of reasons. The mortgage-backed securities we own pay principal and interest towards the end of each month and the mortgage-backed securities we purchase are typically settled during the beginning of the month. As a result, depending on the amount of mortgage-backed securities we have committed to purchase, we may retain the principal and interest we receive in the prior month, or we may use it to pay down our borrowings. Moreover, we use interest rate swaps, swaptions and other derivative instruments to hedge our portfolio and as we pledge or receive collateral under these agreements, our borrowings on any given day may be increased or decreased. Our average borrowings during a quarter will differ from period end borrowings as we implement our portfolio management strategies and risk management strategies over changing market conditions by increasing or decreasing leverage. Additionally, these numbers will differ during periods when we conduct capital raises, as in certain instances we may purchase additional assets and increase leverage with the expectation of a successful capital raise. Since our average borrowings and period end borrowings can be expected to differ, we believe our average borrowings during a period provide a more accurate representation of our exposure to the risks associated with leverage.

As of December 31, 2014 and 2013, 98% and 99%, respectively, of our debt consisted of borrowings collateralized by a pledge of our Investment Securities. These borrowings appear on our Consolidated Statements of Financial Condition as Repurchase Agreements. All of our Agency mortgage-backed securities and debentures are currently accepted as collateral for these borrowings. However, we limit our borrowings, and thus our potential asset growth, in order to maintain unused borrowing capacity and thus increase the liquidity and strength of our balance sheet. As of December 31, 2014, the term to maturity of our repurchase agreements ranged from one day to five years. Additionally, we have entered into borrowings giving the counterparty the right to call the balance prior to maturity. At December 31, 2014 and 2013, the weighted average cost of funds for all of our borrowings was 1.65% and 2.37%, respectively, including the effect of the interest rate swaps, 4% Convertible Senior Notes due 2015 and 5% Convertible Senior Notes due 2015 (collectively, the Convertible Senior Notes) and securitized debt of consolidated VIE, and the weighted average days to maturity was 142 days and 208 days, respectively.

Economic Net Interest Income

The table below shows our average Interest Earning Assets, total interest income, average yield on Interest Earning Assets, average Interest Bearing Liabilities, economic interest expense, average cost of Interest Bearing Liabilities, economic net interest income, net interest spread and net interest margin for the periods presented.

Economic Net Interest Income

	Average Interest Earning Assets(1)	Total Interest Income	Average Yield on Interest	Average Interest Bearing Liabilities	Economic Interest Expense(2)	Average Cost of Interest	Economic Net Interest Income(3)	Net Interest Spread	Net Interest Margin

For the Years Ended:		Earning Assets			Bearing Liabilities				
				(dollars in thousands)					
December 31, 2014	$85,170,734	$2,632,647	3.09%	$70,983,100	$1,338,019	1.88%	$1,294,628	1.21%	1.52%
December 31, 2013	$105,375,229	$2,918,562	2.77%	$91,182,731	$1,533,008	1.68%	$1,385,554	1.09%	1.31%
December 31, 2012	$117,274,876	$3,259,145	2.78%	$103,362,717	$1,560,941	1.51%	$1,698,204	1.27%	1.45%

(1) Does not reflect unrealized gains/(losses) or premium/(discount).

(2) Economic interest expense includes interest expense on interest rate swaps.

(3) Economic net interest income includes interest expense on interest rate swaps.

2014 Compared with 2013

Economic net interest income totaled $1.3 billion for the year ended December 31, 2014, a decrease of $90.9 million compared to the same period in 2013. We attribute the majority of the change to a decline in interest income, primarily attributable to a decline in average Interest Earning Assets $20.2 billion, partially offset by a lower amortization expense, which reflects lower estimated prepayment speeds on our Agency mortgage-backed securities portfolio, and a decline in economic interest expense, primarily attributable to a decline in average Interest Bearing Liabilities of $20.2 billion and lower swap interest expense on lower average notional balances, for the year ended December 31, 2014 compared to the same period in 2013.

2013 Compared with 2012

Economic net interest income totaled $1.4 billion for the year ended December 31, 2013, a decrease of $312.6 million compared to the same period in 2012. The decline was primarily due to a lower net interest rate spread for the year ended December 31, 2013 compared to the same period in 2012. Our average Interest Earning Assets decreased by $11.9 billion during the year ended December 31, 2013 compared to the same period in 2012

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Other Income (Loss)

Other income (loss) is largely comprised of net gains (losses) on interest rate swaps, investment advisory income, net gains (losses) on disposal of investments, dividend income from affiliates, net gains (losses) on trading assets, net unrealized gains (losses) on interest-only Agency mortgage-backed securities and other income (loss). These components of other income (loss) for the years ended December 31, 2014, 2013 and 2012 were as follows:

	For the Years Ended December 31,		
	2014	2013	2012
		(dollars in thousands)	
Net gains (losses) on interest rate swaps (1)	$ (2,553,448)	$ 992,044	$ (928,373)
Investment advisory income	31,343	43,643	82,138
Net gains (losses) on disposal of investments	93,716	403,045	432,139
Dividend income from affiliates	25,189	18,575	28,336
Net gains (losses) on trading assets	(245,495)	1,509	22,910
Net unrealized gains (losses) on interest-only Agency mortgage-backed securities	(86,172)	244,730	(59,937)
Other income (loss)	(12,737)	15,481	525

(1) Includes realized gains (losses) on interest rate swaps, realized gains (losses) on termination of interest rate swaps and unrealized gains (losses) on interest rate swaps

2014 Compared with 2013

The aggregate net gains (losses) on interest rate swaps were ($2.6) billion for the year ended December 31, 2014 compared to $992.0 million for the same period in 2013. The change was primarily attributable to changes in unrealized gains (losses) reflecting the downward trend in interest rates during the year ended December 31, 2014 compared to rising interest rates for the same period in 2013. The changes in unrealized gains (losses) were partially offset by the reversal of unrealized losses in connection with interest rate swap positions that were terminated in 2014, which resulted in higher realized losses on termination of interest rate swaps during the year ended December 31, 2014 compared to the same period in 2013.

Investment advisory income decreased $12.3 million to $31.3 million for the year ended December 31, 2014, sheet as part of our asset/liability management strategy.

Dividend income from affiliates increased $6.6 million to $25.2 million for the year ended December 31, 2014, due to a $9.0 million special dividend from our investment in Chimera recognized during the first quarter of 2014, partially offset by CreXus Investment Corp. (or CreXus) declaring a dividend during the first quarter of 2013 but not during the same period in 2014 as a result of its acquisition. Chimera is and CreXus was managed by our wholly-owned subsidiary FIDAC.

Net gains (losses) on trading assets was ($245.5) million for the year ended December 31, 2014 compared to $1.5 million for the same period in 2013. The change was primarily attributable to higher net losses from interest rate swaptions.

primarily due to lower advisory fees from affiliates and the sale of Merganser Capital Management, Inc. (or Merganser) , a registered investment advisor specializing in managing fixed income securities, to a third party in October 2013.

For the year ended December 31, 2014, we disposed of Investment Securities with a carrying value of $22.5 billion for an aggregate net gain of $94.5 million. We may from time to time sell existing assets to acquire new assets, which our management believes might have higher risk-adjusted returns, or to manage our balance

Net unrealized gains (losses) on interest-only Agency mortgage-backed securities was ($86.2) million for the year ended December 31, 2014 compared to $244.7 million for the same period in 2013. The change was primarily attributable to the downward trend in interest rates experienced in 2014 compared to rising interest rates in 2013.

Other income (loss) was ($12.7) million for the year ended December 31, 2014 compared to $15.5 million for the same period in 2013. The change was primarily attributable to a one-time payment made in 2014 by FIDAC to Chimera to resolve issues raised in derivative demand letters sent to Chimera's board of directors.

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2013 Compared with 2012

The aggregate net gains (losses) on interest rate swaps were $992.0 million for the years ended December 31, 2013 compared to ($928.4) million for the same period in 2012. The change was primarily attributable to the rise in interest rates experienced in 2013.

Investment advisory income decreased $38.5 million to $43.6 million for the year ended December 31, 2013, primarily due to lower advisory fees from affiliates.

For the year ended December 31, 2013, we disposed of Investment Securities with a carrying value of $56.8 billion for an aggregate net gain of $424.1 million.

Dividend income from affiliates decreased $9.8 million to $18.6 million for the year ended December 31, 2013, primarily due to CreXus declaring a dividend for only the first quarter of 2013 as a result of its acquisition.

Net unrealized gains (losses) on interest-only Agency mortgage-backed securities was $244.7 million for the year ended December 31, 2013 compared to ($59.9) million for the same period in 2012. The change was primarily attributable to rising interest rates experienced in 2013.

General and Administrative Expenses

General and administrative (or G&A) expenses consists of compensation expense, the management fee and other expenses.

The table below shows our total G&A expenses as compared to average total assets and average equity for the periods presented.

G&A Expenses and Operating Expense Ratios

For the Years Ended:	Total G&A Expenses	Total G&A Expenses/Average Assets	Total G&A Expenses/Average Equity
		(dollars in thousands)	
December 31, 2014	$ 209,338	0.24 %	1.61 %
December 31, 2013	$ 232,081	0.22 %	1.66 %
December 31, 2012	$ 235,559	0.19 %	1.45 %

2014 Compared with 2013

G&A expenses decreased $22.7 million to $209.3 million for the year ended December 31, 2014 compared to the same period in 2013. The decline was attributable to a lower management fee and a decline in other general and administrative expenses, primarily brokerage expenses, in 2014.

2013 Compared with 2012

G&A expenses decreased $3.5 million to $232.1 million for the year ended December 31, 2013 compared to the

Unrealized Gains and Losses

With our available-for-sale accounting treatment on our Agency mortgage-backed securities which represent the largest portion of assets on balance sheet, unrealized fluctuations in market values of assets do not impact our GAAP or taxable income but rather are reflected on our balance sheet by changing the carrying value of the asset and stockholders' equity under Accumulated Other Comprehensive Income (Loss). As a result of this fair value accounting treatment, our book value and book value per share are likely to fluctuate far more than if we used amortized cost accounting. As a result,

same period in 2012. The decrease was primarily due to the result of the pro forma adjustment to the management fee which resulted in lower compensation expenses in 2013, partially offset by an increase in other general and administrative expenses which included $7.3 million related to our acquisition of CreXus in 2013.

comparisons with companies that use amortized cost accounting for some or all of their balance sheet may not be meaningful.

The table below shows cumulative unrealized gains and losses on our available-for-sale investments reflected in the Consolidated Statements of Financial Condition.

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Unrealized Gains and Losses

	As of December 31,	
	2014	2013
	(dollars in thousands)	
Unrealized gain	$ 950,072	$ 600,034
Unrealized loss	(745,189)	(3,348,967)
Net unrealized gain (loss)	$ 204,883	$ (2,748,933)

Unrealized changes in the estimated fair value of available-for-sale investments may have a direct effect on our potential earnings and dividends: positive changes will increase our equity base and allow us to increase our borrowing capacity while negative changes tend to reduce borrowing capacity under our investment policy. A very large negative change in the net fair value of our available-for-sale investment securities might impair our liquidity position, requiring us to sell assets with the likely result of realized losses upon sale.

The fair value of these securities being below amortized cost for the year ended December 31, 2014 is solely due to market conditions and not the quality of the assets. The investments are not considered to be other-than-temporarily impaired because we currently have the ability and intent to hold the investments to maturity or for a period of time sufficient for a forecasted market price recovery up to or beyond the cost of the investments, and it is not more likely than not that we will be required to sell the investments before recovery of the amortized cost bases, which may be maturity. Also, we are guaranteed payment of the principal amount of the securities by the respective issuing government agency.

Net Income (Loss) and Return on Average Equity

We recorded a net loss of $842.3 million, which includes a $0.2 million net loss attributable to a noncontrolling interest, for the year ended December 31, 2014 and net income of $3.7 billion and $1.7 billion for the years ended December 31, 2013 and 2012, respectively. Our return (loss) on average equity was (6.49%), 26.70% and 10.71% for the years ended December 31, 2014, 2013 and 2012, respectively.

The table below shows the components of our return on average equity for the periods presented.

Components of Return on Average Equity

	Economic Net Interest Income/ Average Equity(1)	Net Investment Advisory and Service Fees/Average Equity	Realized and Unrealized Gains and Losses/Average Equity	Other Income (Loss)/Average Equity(2)	G&A Expenses/ Average Equity	Income Taxes/ Average Equity	Return on Average Equity
For the Years Ended:							
December 31, 2014	9.98 %	0.24 %	(15.16 %)	0.10 %	(0.24 %)	(0.04 %)	(6.49 %)
December 31, 2013	9.92 %	0.31 %	18.25 %	(0.06 %)	(1.66 %)	(0.06 %)	26.70 %

December 31, 2012	10.48 %	0.51 %	1.22 %	0.17 %	(1.45 %)	(0.22 %)	10.71 %

(1) Economic net interest income includes interest expense on interest rate swaps.

(2) Other income (loss) includes dividend income from affiliates, impairment of goodwill, loss on previously held equity interest in CreXus and other income (loss).

Financial Condition

Total assets were $88.4 billion and $81.9 billion as of December 31, 2014 and 2013, respectively. The change was primarily due to an $11.2 billion increase in Agency mortgage-backed securities partially offset by a $1.6 billion decrease in Agency debentures.

Investment Securities

Substantially all of our Agency mortgage-backed securities at December 31, 2014 and 2013 were backed by single-family mortgage loans. Substantially all of the mortgage assets underlying these mortgage-backed securities were secured with a first lien position on the underlying single-family properties. Our mortgage-backed securities were largely Freddie Mac, Fannie Mae or Ginnie Mae pass through certificates or CMOs, which carry an actual or implied “AAA” rating. We carry all of our Agency mortgage-backed securities at fair value on the Consolidated Statements of Financial Condition.

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We accrete discount balances as an increase to interest income over the expected life of the related Interest Earning Assets and we amortize premium balances as a decrease to interest income over the expected life of the related Interest Earning Assets. At December 31, 2014, and 2013 we had on our Consolidated Statements of Financial Condition a total of $19.6 million and $25.7 million, respectively, of unamortized discount (which is the difference between the remaining principal value and current amortized cost of our Investment Securities acquired at a price below principal value) and a total of $5.4 billion and $4.6 billion, respectively, of unamortized premium (which is the difference between the remaining principal value and the current amortized cost of our Investment Securities acquired at a price above principal value).

We received mortgage principal repayments of $8.3 billion and $21.7 billion for the years ended December 31, 2014 and 2013, respectively. The weighted average experienced prepayment speed for the years ended December 31, 2014 and 2013 was 8% and 14%, respectively. Given our current portfolio composition, if mortgage principal prepayment rates were to increase over the life of our mortgage-backed securities, all other factors being equal, our net interest income would decrease during the life of these mortgage-backed securities as we would be required to amortize our net premium balance into income over a shorter time period. Similarly, if mortgage principal prepayment rates were to decrease over the life of our mortgage-backed securities, all other factors being equal, our net interest income would increase during the life of these mortgage-backed securities as we would amortize our net premium balance over a longer time period.

The table below summarizes certain characteristics of our Agency mortgage-backed securities and Agency debentures and interest-only securities, as of the dates presented. The index level for adjustable-rate Agency mortgage-backed securities and Agency debentures is the weighted average rate of the various short-term interest rate indices, which determine the coupon rate.

	December 31, 2014	December 31, 2013
	(dollars in thousands)	
Agency Mortgage-Backed Securities and Agency Debentures:		
Principal Amount	$ 77,391,804	$ 71,430,069
Net Premium	4,118,679	3,558,168
Amortized Cost	81,510,483	74,988,237
Amortized Cost/Principal Amount	105.32 %	104.98 %
Carrying Value	81,711,172	72,238,708
Carrying Value / Principal Amount	105.58 %	101.13 %
Weighted Average Coupon Rate	3.69 %	3.62 %
Weighted Average Yield	2.81 %	2.89 %
Adjustable-Rate Agency Mortgage-Backed Securities and Agency Debentures:		
Principal Amount	$ 3,870,609	$ 6,719,599
Weighted Average Coupon Rate	2.82 %	2.81 %
Weighted Average Yield	2.73 %	2.80 %
Weighted Average Term to Next Adjustment	35 Months	33 Months
Weighted Average Lifetime Cap	7.95 %	6.44 %

Principal Amount at Period End as % of Total Investment Securities		5.00	%		9.41	%
Fixed-Rate Agency Mortgage-Backed Securities and Agency Debentures:						
Principal Amount	$	73,521,195		$	64,710,470	
Weighted Average Coupon Rate		3.73	%		3.71	%
Weighted Average Yield		2.82	%		2.90	%
Principal Amount at Period End as % of Total Investment Securities		95.00	%		90.59	%
Agency Interest-Only Mortgage-Backed Securities:						
Notional Amount	$	8,008,538		$	7,374,675	
Net Premium		1,230,471			1,041,990	
Amortized Cost		1,230,471			1,041,990	
Amortized Cost/Notional Amount		15.36	%		14.13	%
Carrying Value		1,222,434			1,120,126	
Carrying Value/Notional Amount		15.26	%		15.19	%
Weighted Average Coupon Rate		4.00	%		3.82	%
Weighted Average Yield		7.29	%		9.00	%

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At December 31, 2014 and 2013, we held Agency mortgage-backed securities and Agency debentures, excluding interest-only securities, with coupons linked to various indices. The following tables detail the portfolio characteristics by index.

Adjustable-Rate Agency Mortgage-Backed Securities and Agency Debentures by Index December 31, 2014

	Six-Month Libor	Twelve Month Libor	12-Month Moving Average	11th District Cost of Funds	1-Year Treasury Index	Other Indices(1)
Weighted average term to next adjustment	4 mo.	50 mo.	1 mo.	1 mo.	12 mo.	22 mo.
Weighted average annual period cap	1.75%	2.00%	-	-	2.00%	-
Weighted average lifetime cap at September 30, 2014	11.28%	9.58%	9.15%	10.71%	10.72%	4.28%
Investment principal value as percentage of Investment Securities at December 31, 2014	0.19%	2.73%	0.13%	0.18%	0.12%	1.65%

(1) Combination of indices that account for less than 0.05% of total or adjust over time, without a reset index.

Adjustable-Rate Agency Mortgage-Backed Securities and Agency Debentures by Index December 31, 2013

	Six-Month Libor	Twelve Month Libor	12-Month Moving Average	11th District Cost of Funds	1-Year Treasury Index	Other Indices(1)
Weighted average term to next adjustment	4 mo.	40 mo.	1 mo.	1 mo.	18 mo.	34 mo.
Weighted average annual period cap	1.78%	2.00%	-	-	2.00%	-
Weighted average lifetime cap at December 31, 2013	11.20%	9.81%	7.36%	10.80%	10.74%	2.36%
Investment principal value as percentage of Investment Securities at December 31, 2013	0.40%	4.04%	0.28%	0.23%	0.18%	4.28%

(1) Combination of indices that account for less than 0.05% of total or adjust over time, without a reset index.

Contractual Obligations

The following table summarizes the effect on our liquidity and cash flows from contractual obligations for repurchase agreements, Convertible Senior Notes, interest expense on repurchase agreements and Convertible Senior Notes, securitized debt of consolidated VIE, mortgages payable, participation sold, the non-cancelable office leases and employment agreements as of December 31, 2014. The table does not include the effect of net interest rate payments on our interest rate swap agreements. The net swap payments will fluctuate based on monthly changes in the receive rate. As of December 31, 2014, the interest rate swaps had a net negative fair value of $1.5 billion.

	Within One Year	One to Three Years	Three to Five Years	More than Five Years	Total
			(dollars in thousands)		
Repurchase agreements	$ 60,562,124	$ 10,699,802	$ 100,000	$ -	$ 71,361,926
Interest expense on repurchase agreements(1)	231,706	178,285	3,863	-	413,854
Convertible Senior Notes (principal)	857,541	-	-	-	857,541
Interest expense on Convertible Senior Notes	14,600	-	-	-	14,600
Securitized debt of consolidated VIE (principal)	153,954	106,746	-	-	260,700
Mortgages payable (principal)	334	18,772	23,375	103,950	146,431
Participation sold (principal)	296	13,138	-	-	13,434
Long-term operating lease obligations	888	7,169	7,129	22,291	37,477
Total	$ 61,821,443	$ 11,023,912	$ 134,367	$ 126,241	$ 73,105,963

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We had no material unfunded loan commitments as of December 31, 2014.

In the coming periods, we expect to continue to finance our Agency mortgage-backed securities in a manner that is largely consistent with our current operations via repurchase agreements. We may use Federal Home Loan Bank of Des Moines (FHLB Des Moines) advances, securitization structures, mortgages payable or other term financing structures to finance certain of our assets. During the year ended December 31, 2014, we received $8.3 billion from principal repayments and $22.7 billion in cash from disposal of Investment Securities. During the year ended December 31, 2013, we received $21.7 billion from principal repayments and $56.5 billion in cash from disposal of Investment Securities.

Off-Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Further, we have not guaranteed any obligations of unconsolidated entities nor do we have any commitment or intent to provide funding to any such entities. As such, we are not materially exposed to any market, credit, liquidity or financing risk that could arise if we had engaged in such relationships.

Capital Management

Maintaining a strong balance sheet that can support the business even in times of economic stress and market volatility is of critical importance to our business strategy. A strong and robust capital position is essential to executing our investment strategy. Our capital strategy is predicated on a strong capital position, which enables us to execute our investment strategy regardless of the market environment.

The capital policy defines the parameters and principles supporting a comprehensive capital management practice, including processes that effectively identify, measure and monitor risks impacting capital adequacy. The capital assessment process considers the precision in risk measures as well as the volatility of exposures and the relative activities producing risk. Parameters used in modeling economic capital must align with our risk appetite.

Economic capital is our internal quantification of the risks inherent in our business and considers the amount of capital we need as a buffer to protect against risks. It is considered the capital needed to remain solvent under extreme scenarios. It is a probabilistic measure of potential future losses at a given confidence level over a given time horizon.

The major risks impacting capital applicable to us are liquidity, investment/market, credit, counterparty, operational, and other risks such as compliance, legal and regulatory risks. For further discussion of the risks we are subject to, please see Part I, Item 1A. "Risk Factors" of our most recent annual report on Form 10-K.

Capital requirements are based on maintaining levels above approved limits, ensuring the quality of our capital appropriately reflects our asset mix, market and funding structure. As such we use a complement of capital metrics and related threshold levels to measure and analyze our capital from a magnitude and composition perspective. Our policy is to maintain an appropriate amount of available financial resources over the aggregate economic capital requirements.

Available Financial Resources (or AFR) is the actual capital held to protect against the unexpected losses measured in our capital management process and may include:

- Common and preferred equity
- Other forms of equity-like capital
- Surplus credit reserves over expected losses
- Other loss absorption instruments

Our Internal Capital Adequacy Assessment Program (or ICAAP) framework supports capital and business performance measurement, and is integrated within the overall risk governance framework. The ICAAP framework is designed to align capital measurement with our risk appetite.

Our objective is to maintain an active ICAAP that reflects sound governance, requires active assessment and reporting of internal capital adequacy, incorporates stress testing based on internal and external factors and identifies potential capital actions to ensure our capital and available financial resources remain in excess of internal capital requirements.

In the event we fall short of our internal limits we will take appropriate actions which may include asset sales, changes in asset mix, reductions in asset purchases or originations, issuance of capital or other capital enhancing or risk reduction strategies.

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Stockholders' Equity

The following table provides a summary of total stockholders' equity as of December 31, 2014 and 2013:

	December 31,	
	2014	2013
Stockholders' Equity:	(dollars in thousands)	
7.875% Series A Cumulative Redeemable Preferred Stock	$ 177,088	$ 177,088
7.625% Series C Cumulative Redeemable Preferred Stock	290,514	290,514
7.50% Series D Cumulative Redeemable Preferred Stock	445,457	445,457
Common stock	9,476	9,474
Additional paid-in capital	14,786,509	14,765,761
Accumulated other comprehensive income (loss)	204,883	(2,748,933)
Accumulated deficit	(2,585,436)	(534,306)
Total stockholders' equity	$ 13,328,491	$ 12,405,055

Common and Preferred Stock

The following table provides a summary of options activity for the periods presented:

For the Years Ended:	Options Exercised	Aggregate Exercise Price	Shares Issued Through Direct Purchase	Amount Raised from Direct Purchase and Dividend Reinvestment Program
		(dollars in millions)		
December 31, 2014	-	$ -	210,000	$ 2.4
December 31, 2013	166,000	2.2	219,000	2.9
December 31, 2012	603,000	8.4	170,000	2.8

During the year ended December 31, 2012, 1.3 million shares of 6.00% Series B Cumulative Convertible Preferred Stock (or Series B Preferred Stock) were converted into 4.0 million shares of common stock.

In March 2012, we entered into six separate Distribution Agency Agreements (or Distribution Agency Agreements) with each of Merrill Lynch, Pierce, Fenner & Smith Incorporated, Credit Suisse Securities (USA) LLC, Goldman, Sachs & Co., J.P. Morgan Securities

Distributions to Stockholders

Our policy is to distribute 100% of our REIT taxable income. To the extent there is any undistributed REIT taxable income at the end of a year, we distribute such shortfall within the next year as permitted by the Code. REIT taxable income will differ from GAAP net income (loss) due to timing differences, such as the amortization/accretion of premiums/discounts from purchases of Investment Securities and unrealized gains

LLC, Morgan Stanley & Co. LLC and RCap (together, the Agents). Pursuant to the terms of the Distribution Agency Agreements, we may sell from time to time through the Agents, as our sales agents, up to 125,000,000 shares of our common stock. We did not make any sales under the Distribution Agency Agreements during the years ended December 31, 2014, 2013 and 2012.

(losses) included in net income (loss).

We seek to generate income for distribution to our stockholders, typically by earning a spread between the yield on our assets and the cost of our borrowings. Our REIT taxable income, which serves as the basis for distributions to our stockholders, is generated primarily from this spread income.

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The following table provides a summary of dividend distribution activity for the periods presented:

	For the Years Ended:		
	December 31, 2014	December 31, 2013	December 31, 2012
	(dollars in thousands, except per share data)		
Dividends declared to common stockholders	$ 1,137,079	$ 1,420,856	$ 1,989,690
Dividends declared per common share	$ 1.20	$ 1.50	$ 2.05
Dividends paid to common stockholders after period end	$ 284,293	$ 284,230	$ 432,153
Dividends paid per common share after period end	$ 0.30	$ 0.30	$ 0.45
Date of dividends paid to common stockholders after period end	January 29, 2015	January 31, 2014	January 29, 2013
Dividends declared to Series A Preferred stockholders	$ 14,593	$ 14,593	$ 14,593
Dividends declared per Series A Preferred share	$ 1.97	$ 1.97	$ 1.97
Dividends declared to Series B Preferred stockholders	$ -	$ -	$ 289
Dividends declared per Series B Preferred share	$ -	$ -	$ 0.380
Dividends declared to Series C Preferred stockholders	$ 22,875	$ 22,875	$ 14,297
Dividends declared per Series C Preferred share	$ 1.91	$ 1.91	$ 1.19
Dividends declared to Series D Preferred stockholders	$ 34,500	$ 34,500	$ 10,351
Dividends declared per Series D Preferred share	$ 1.88	$ 1.88	$ 0.56

Leverage and Capital

We believe that it is prudent to maintain a conservative debt-to-equity ratio as there continues to be volatility in the mortgage and credit markets. Our capital policy governs our capital and leverage position including setting limits. Based on the guidelines, we generally expect to maintain a ratio of debt-to-equity of less than 12:1. Our actual leverage ratio varies from time to time based upon various factors, including our management's opinion of the level of risk of our assets and liabilities, our liquidity position, our level of unused borrowing capacity, the availability of credit, over-collateralization levels required by lenders when we pledge assets to secure borrowings and our assessment of domestic and international market conditions.

We are subject to a variety of risks in the ordinary conduct of our business. The effective management of these risks is of critical importance to the overall success of Annaly. The objective of our risk management framework is to measure, monitor and manage these risks. Our risk management framework is intended to facilitate a holistic, enterprise wide view of risk. We have built a strong and collaborative risk culture throughout Annaly focused on awareness which ensures the key risks are understood and managed appropriately. Each employee is accountable for monitoring and managing risk within their area of responsibility.

Risk Appetite

We maintain a firm-wide risk appetite statement which defines the types and levels of risk we are willing to take in order to achieve our business objectives, and reflects

Our debt-to-equity ratio (including securitized debt of consolidated VIE, loan participation sold and mortgages payable which are non-recourse to us, subject to customary carveouts) at December, 31, 2014 and 2013 was 5:4:1 and 5.0:1, respectively. Our capital ratio, which represents our ratio of stockholders' equity to total assets, was 15.1% and 15.1% at December 31, 2014 and 2013, respectively.

Risk Management

our risk management philosophy. Fundamentally, we will only engage in risk activities based on our core expertise that enhance value for our stockholders. Our activities focus on capital preservation and income generation through proactive portfolio management, supported by a conservative liquidity and leverage posture.

The risk appetite statement asserts to key parameters to guide our risk management activities. For a full discussion of our risk parameters, refer to the section titled "Business Overview" of Item 1 "Business."

Governance

Risk management begins with our board of directors, through the review and oversight of the risk management framework, and executive management, through the ongoing formulation of risk management practices and related execution in managing risk. The board of directors exercises its oversight of risk management primarily through the Board Risk Committee (or BRC) and Board Audit Committee (or BAC). The BRC is responsible for oversight of our risk governance structure, risk management and risk assessment guidelines and policies, our risk tolerance and our capital, liquidity and funding. The BAC is responsible for oversight of the quality and integrity of our accounting, internal controls and financial reporting practices, including independent auditor selection, evaluation and review, and oversight of the internal audit function.

Risk assessment and risk management are the responsibility of our management. A series of management committees have oversight or decision-making responsibilities for risk management activities. Memberships of these committees are reviewed regularly to ensure the appropriate personnel are engaged in the risk management process. Three primary management committees have been established to provide a comprehensive framework for risk management. The management committees responsible for our risk management include the Enterprise Risk Committee, Asset and Liability Committee and the Financial Reporting and Disclosure Committee.

Audit Services is an independent function with reporting lines to the BAC. Audit Services is responsible for performing our internal audit activities, which includes independently assessing and validating key controls within the risk management framework.

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Description of Risks

We are subject to a variety of risks due to the business we operate. Risk categories are an important component of a robust enterprise wide risk management framework. We have identified the following primary categories that we utilize to identify, assess, measure and monitor risk.

Risk	Description
Liquidity Risk	Risk to earnings, capital or business arising from our inability to meet our obligations when they come due without incurring unacceptable losses because of inability to liquidate assets or obtain adequate funding.
Investment/Market Risk	Risk to earnings, capital or business resulting in the decline in value of our assets or an increase in the costs of financing caused by changes in market variables, such as interest rates, which affect the values of invested securities and other investment instruments.
Credit and Counterparty Risk	Risk to earnings, capital or business, resulting from an obligor's or counterparty's failure to meet the terms of any contract or otherwise failure to perform as agreed. This risk is present in lending, investing, funding and hedging activities.
Operational Risk	Risk to earnings, capital, reputation or business arising from inadequate or failed internal processes or systems, human factors or external events. Model risk is included in operational risk.
Compliance, Regulatory and Legal Risk	Risk to earnings, capital, reputation or conduct of business arising from violations of, or nonconformance with internal and external applicable rules and regulations, losses resulting from lawsuits or adverse judgments, or from changes in the regulatory environment that may impact our business model.

Liquidity Risk Management

Our liquidity risk management strategy is designed to ensure the availability of sufficient resources to support our business and meet our financial obligations under both normal and adverse market and business environments. Our liquidity risk management practices consist of the following primary elements:

Funding	Availability of diverse and stable sources of funds.
Excess Liquidity	Excess liquidity primarily in the form of unencumbered assets.
Maturity Profile	Diversity and tenor of liabilities and modest use of leverage.
Stress Testing	Scenario modeling to measure the resiliency of our liquidity position.
Liquidity Management Policies	Comprehensive policies including monitoring, risk limits and an escalation protocol.

Funding

Our primary financing sources are repurchase agreements and various forms of equity. Through the judicious use of leverage, we maintain excess liquidity counterparties and maintaining a staggered and longer-term maturity profile. We have not at the present time entered into any commitment agreements under which the lender would be required to enter into new repurchase agreements during a specified period of time.

through investing in high quality unencumbered assets, which serve as our capital buffer.

Repurchase agreements are our primary source of debt financing. We conservatively manage our repurchase agreement (or repo) funding position through a variety of methods including diversity, breadth and depth of

Our repos generally provide that in the event of a margin call we must provide additional securities or cash on the same business day that a margin call is made. Should prepayment speeds on the mortgages underlying our Agency mortgage-backed securities and/or market interest rates suddenly increase leading to market value declines, resulting margin calls may cause an adverse change in our liquidity position.

At December 31, 2014, we had total financial instruments and cash pledged as collateral for repurchase agreements and interest rate swaps of $77.0 billion. The weighted average haircut was approximately 4% on repurchase agreements. The quality and character of the Agency mortgage-backed securities that we pledge as collateral under the repurchase agreements and interest rate swaps did not materially change during the year ended December 31, 2014 compared to the year ended December 31, 2013, and our counterparties did not materially alter any requirements, including required haircuts, related to the collateral we pledge under repurchase agreements and interest rate swaps during the year ended December 31, 2014.

The table below presents our quarterly average and quarter-end repurchase agreement and reverse repurchase agreement balances outstanding for the periods presented:

	Repurchase Agreements		Reverse Repurchase Agreements	
Quarters Ended:	Average Daily Amount Outstanding	Ending Amount Outstanding	Average Daily Amount Outstanding	Ending Amount Outstanding
	(dollars in thousands)			
December 31, 2014	$ 72,117,895	$ 71,361,926	$ 10,870	$ 100,000
September 30, 2014	71,312,473	69,610,722	-	-
June 30, 2014	70,133,219	70,372,218	227,640	-
March 31, 2014	64,443,248	64,543,949	379,042	444,375
December 31, 2013	67,509,177	61,781,001	345,470	100,000
September 30, 2013	76,265,080	69,211,309	217,693	31,074
June 30, 2013	93,250,767	81,397,335	2,569,531	171,234
March 31, 2013	106,440,476	100,322,942	3,425,546	4,933,465

At December 31, 2014, the repurchase agreements outstanding had weighted average remaining maturities of 141 days and the following remaining maturities and weighted average rates:

	December 31, 2014		
	Repurchase Agreements	Weighted Average Rate	% of Total
	(dollars in thousands)		
1 day	$ -	0.00 %	0.0 %
2 to 29 days	28,354,167	0.35 %	39.7 %
30 to 59 days	17,336,469	0.43 %	24.3 %
60 to 89 days	4,040,677	0.38 %	5.7 %
90 to 119 days	2,945,495	0.50 %	4.1 %
Over 120 days(1)	18,685,118	1.24 %	26.2 %
Total	$ 71,361,926	0.61 %	100.0 %

(1) Approximately 15% of the total repurchase agreements had a remaining maturity over 1 year.

Excess Liquidity

obligations and funding needs. Assets are considered encumbered if pledged as collateral against an existing

Our primary source of liquidity is the availability of unencumbered assets which may be provided as collateral to support additional funding needs. We target minimum thresholds of available, unencumbered assets to maintain excess liquidity. The following table illustrates our asset portfolio available to support potential collateral liability, and therefore no longer available to support additional funding. An asset is considered unencumbered if it has not been pledged or securitized. The following table provides the carrying amount of our encumbered and unencumbered financial assets as of December 31, 2014:

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	Encumbered Assets	Unencumbered Assets (dollars in thousands)	Total
Financial Assets:			
Cash and cash equivalents	$ 1,584,701	$ 156,543	$ 1,741,244
Investments, at fair value:(1)			
Agency mortgage-backed securities	74,006,480	8,290,488	82,296,968
Agency debentures	1,368,350	-	1,368,350
Commercial real estate debt and preferred equity	398,634	1,119,531	1,518,165
Corporate debt	-	166,464	166,464
Total financial assets	$ 77,358,165	$ 9,733,026	$ 87,091,191

(1) The amounts reflected in the table above are on a settlement date basis and may differ from the total positions reported on the Consolidated Statements of Financial Condition.

We maintain liquid assets in order to satisfy our current and future obligations in normal and stressed operating environments. These are held as the primary means of liquidity risk mitigation. The composition of our liquid assets is considered as well and is subject to certain parameters. The composition is monitored for concentration risk, asset type and ratings. We believe the assets we consider liquid can be readily converted into cash, through liquidation or used as collateral in financing arrangements (including certain collateral currently supporting existing financial arrangements). Our balance sheet also generates liquidity on an on-going basis through mortgage principal and interest repayments and net earnings held prior to payment of dividends. The following table presents our liquid assets as a percentage of total assets as of December 31, 2014.

Liquid Assets	Carrying Value(1) (dollars in thousands)
Cash and cash equivalents	$ 1,741,244
Investment Securities(2)	83,665,318
Total liquid assets	$ 85,406,562
Percentage of liquid assets to total assets	96.66 %

(1) Carrying value represents the market value of assets. The assets listed in this table include $77.0 billion of assets that have been pledged as collateral against existing liabilities as of December 31, 2014. Please refer to the Encumbered and Unencumbered Assets table for related information.

(2) The amounts reflected in the table above are on a settlement date basis and may differ from the total positions reported on the Consolidated Statements of Financial Condition.

Maturity Profile

assumes no reinvestment of asset cash flows and no future liabilities are entered into. In assessing the

We consider the profile of our assets, liabilities and derivatives when managing both liquidity risk as well as investment/market risk employing a measurement of both the maturity gap and interest rate gap.

We determine the amount of liquid assets that are required to be held by monitoring several liquidity metrics. We utilize several modeling techniques to analyze our current and potential obligations including the expected cash flows from our assets, liabilities and derivatives. The following table illustrates the expected maturities and cash flows of our assets, liabilities and derivatives. The table is based on a static portfolio and maturity of our assets, liabilities and off balance sheet obligations we use the stated maturities or prepayment expectations for assets that exhibit prepayment characteristics. Cash and cash equivalents are included in the 'within 3 months' maturity bucket, as they are typically held for a short period of time.

With respect to each maturity bucket, our maturity gap is considered negative when the amount of maturing liabilities exceeds the amount of maturing assets. A negative gap increases our liquidity risk as we must enter into future liabilities.

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Our interest rate sensitivity gap is the difference between Interest Earning Assets and Interest Bearing Liabilities maturing or re-pricing within a given time period. Unlike the calculation of maturity gap, interest rate sensitivity gap includes the effect of our interest rate swaps. A gap is considered positive when the amount of interest-rate sensitive assets exceeds the amount of interest-rate sensitive liabilities. A gap is considered negative when the amount of interest-rate sensitive liabilities exceeds interest-rate sensitive assets. During a period of rising interest rates, a negative gap would tend to adversely affect net interest income, while a positive gap would tend to result in an increase in net interest income. During a period of falling interest rates, a negative gap would tend to result in an increase in net interest income, while a positive gap would tend to affect net interest income adversely. Because different types of assets and liabilities with the same or similar maturities may react differently to changes in overall market rates or conditions, changes in interest rates may affect net interest income positively or negatively even if an institution were perfectly matched in each maturity category. The amount of assets and liabilities utilized to compute our interest rate sensitivity gap was determined in accordance with the contractual terms of the assets and liabilities, except for adjustable-rate loans and securities are included in the period in which their interest rates are first scheduled to adjust and not in the period in which they mature. The effects of interest rate swaps, which effectively lock in our financing costs for a longer term are also reflected in our interest rate sensitivity gap. The interest rate sensitivity of our assets and liabilities in the table below could vary substantially based on actual prepayment experience.

	Less than 3 Months	3-12 Months	More than 1 Year to 3 Years	3 Years and Over	Total
Financial Assets:			(dollars in thousands)		
Cash and cash equivalents	$1,741,244	$-	$-	$-	$1,741,244
Reverse repurchase agreements	100,000	-	-	-	100,000
Agency Mortgage-backed securities (principal)	3,648	38,184	1,521,631	74,419,536	75,982,999
Agency debentures (principal)	-	-	-	1,408,805	1,408,805
Corporate debt (principal)	-	-	10,036	157,979	168,015
Commercial real estate debt and preferred equity (principal)	28,457	511,510	684,946	296,059	1,520,972
Total financial assets	$1,873,349	$549,694	$2,216,613	$76,282,379	$80,922,035
Financial Liabilities:					
Repurchase agreements	$49,731,313	$10,830,811	$10,699,802	$100,000	$71,361,926
Convertible Senior Notes (principal)	107,541	750,000	-	-	857,541
Securitized debt of consolidated VIE (principal)	-	153,954	106,746	-	260,700
Participation sold (principal)	76	220	13,138	-	13,434
Total financial liabilities	$49,838,930	$11,734,985	$10,819,686	$100,000	$72,493,601
Maturity gap	$(47,965,581)	$(11,185,291)	$(8,603,073)	$76,182,379	$8,428,434

Cumulative maturity gap	$(47,965,581)	$(59,150,872)	$(67,753,945)	$8,428,434	
Interest rate sensitivity gap	$(15,682,226)	$(10,118,428)	$(11,556,723)	$45,785,811	$8,428,434
Cumulative rate sensitivity gap	$(15,682,226)	$(25,800,654)	$(37,357,377)	$8,428,434	
Cumulative rate sensitivity gap as a % of total rate sensitive assets	(19.38 %)	(31.88 %)	(46.16 %)	10.42 %	

The methodologies we employ for evaluating interest rate risk include an analysis of our interest rate "gap," measurement of the duration and convexity of our portfolio and sensitivities to interest rates and spreads.

Liquidity Management Policies

We utilize a comprehensive liquidity policy structure to inform our liquidity risk management practices including monitoring and measurement, along with well-defined key limits. Both quantitative and qualitative targets are utilized to measure the ongoing stability and condition of the liquidity position, and include the level and composition of unencumbered assets, as well as both short-term and long-term sustainability of the funding composition under stress conditions.

We also monitor early warning metrics designed to measure the quality and depth of liquidity sources based upon both company-specific and macro environmental conditions. The metrics assess both the short-term and long-term liquidity conditions and are integrated into our escalation protocol, with various liquidity ratings influencing management actions with respect to contingency planning and potential related actions.

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Stress Testing

We utilize liquidity stress testing to ensure we have sufficient liquidity under a variety of scenarios and stresses. These stress tests are considered and assist with the management of our pool of liquid assets, and influence our current and future funding plans. Our stress tests are modeled over both short term and longer time horizons. The stresses applied include market-wide and firm-specific stresses.

Investment/Market Risk Management

One of the primary risks we are subject to is interest rate risk. Changes in the level of interest rates can affect our net interest income, which is the difference between the income we earn on our Interest Earning Assets and the interest expense incurred from Interest Bearing Liabilities and derivatives. Changes in the level of interest rates can also affect the value of our securities and potential realization of gains or losses from the sale of these assets. We may utilize a variety of financial instruments, including interest rate swaps, swaptions, options, futures and other hedges, in order to limit the adverse effects of interest rates on our results. Our portfolio and the value of our portfolio, including derivatives, may be adversely affected as a result of changing interest rates and spreads.

We simulate a wide variety of interest rate scenarios in evaluating our risk. Scenarios are run to capture our sensitivity to changes in interest rates, spreads and the shape of the yield curve. We also consider the assumptions affecting our analysis such as those related to prepayments. In addition to predefined interest rate scenarios, we utilize Value-at-Risk measures to estimate potential losses in the portfolio over various time horizons utilizing various confidence levels. The following tables estimate the potential changes in economic net interest income over a twelve month period and the immediate effect on our portfolio market value (inclusive of derivative instruments), should interest rates increase or decrease by 25, 50 or 75 basis points, and the effect of portfolio market value if mortgage option-adjusted spreads increase or decrease by 5, 15 or 25 basis points (assuming shocks are parallel and instantaneous). All changes to income and portfolio market value are measured as percentage changes from the projected net interest income and portfolio value at the base interest rate scenario. The base interest rate scenario assumes interest rates at December 31, 2014 and various estimates regarding prepayments and all activities are made at each level of rate shock. Actual results could differ significantly from these estimates.

Change in Interest Rate	Projected Percentage Change in Economic Net Interest Income(1)	Estimated Percentage Change in Portfolio Value(2)	Estimated Change as a % on NAV(2)(3)
-75 Basis Points	(10.6%)	0.2%	1.3%
-50 Basis Points	(3.5%)	0.3%	1.8%
-25 Basis Points	(1.9%)	0.2%	1.4%
Base Interest Rate	-	-	-
+25 Basis Points	1.2%	(0.3%)	(2.0%)
+50 Basis Points	2.6%	(0.7%)	(4.7%)
+75 Basis Points	2.6%	(1.2%)	(8.0%)

MBS Spread Shock	Estimated Change in Portfolio Market Value	Estimated Change as a % on NAV(2)(3)
-25 Basis Points	1.2%	7.7%
-15 Basis Points	0.7%	4.6%

-5 Basis Points	0.2%	1.6%
Base Interest Rate	-	-
+5 Basis Points	(0.2%)	(1.4%)
+15 Basis Points	(0.7%)	(4.4%)
+25 Basis Points	(1.1%)	(7.4%)

(1) Scenarios include Investment Securities, repurchase agreements and interest rate swaps only. Economic net interest income includes interest expense on interest rate swaps.
(2) Scenarios include Investment Securities and derivative instruments.
(3) NAV represents book value of equity.

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Credit and Counterparty Risk Management

Key risk parameters have been established to specify Annaly's credit risk appetite. We will maintain a high quality asset portfolio with at least 75% of the portfolio to be high quality mortgage-backed securities and short term investments (equivalency rating of AA+ or better), and an aggregate weighted average equivalency rating of single "A" or better.

While we do not expect to encounter credit risk in our Agency investments, we face credit risk on the non-Agency portions of our portfolio. We are exposed to credit risk on commercial real estate investments and corporate debt. We generally face more credit risk on investments where we hold subordinated debt or equity positions. We are exposed to risk of loss if an issuer, borrower or counterparty fails to perform its contractual obligations. We have established policies and procedures for mitigating credit risk, including reviewing and establishing limits for credit exposure, limiting transactions with specific counterparties, maintaining qualifying collateral and continually assessing the creditworthiness of counterparties, borrowers and issuers. We only originate or purchase commercial investments that meet our comprehensive underwriting process and credit standards and are approved by the appropriate committee. Once a commercial investment is made, our ongoing surveillance process includes regular reviews, analysis and oversight of investments by our investment personnel and appropriate committee. We review credit and other risks of loss associated with each investment and determine the appropriate allocation of capital to apply to each investment under our capital policy. Our management will monitor the overall portfolio risk and determine estimates of provision for loss. Our portfolio composition as of December 31, 2014 and December 31, 2013 was as follows:

Asset Portfolio (using balance sheet values)

Category	2014	2013
Agency mortgage-backed securities(1)	96.2%	93.7%
Agency debentures	1.6%	4.0%
Commercial real estate debt and equity investments(2)	2.0%	2.1%
Other mortgage-backed-securities	0.0%	0.0%
Corporate debt, held for investment	0.2%	0.2%

(1) Including TBAs held for delivery.
(2) Net of unamortized origination fees.

Our use of repurchase and derivative agreements create exposure to credit risk relating to potential losses that could be recognized if the counterparties to these agreements fail to perform their obligations under the contracts. In the event of default by a counterparty, we could have difficulty obtaining our assets pledged as collateral. A significant portion of our Agency securities are financed with repurchase agreements by pledging our agency securities as collateral to the lender. The collateral we pledge exceeds the amount of the

We also use interest rate swaps and other derivatives to manage interest rate risk. Under these agreements, we pledge securities and cash as collateral as part of a margin arrangement. If a counterparty were to default on its obligations, we would be exposed to a loss to a derivative counterparty to the extent that the amount of our securities or cash pledged exceeded the unrealized loss on the associated derivative and we were not able to recover the excess collateral. Additionally, we would be exposed to a loss to a derivative counterparty to the

borrowings under each agreement. If the counterparty to the repurchase agreement defaults on its obligations and we are not able to recover our pledged asset, we are at risk of losing the over-collateralization or haircut. The amount of this exposure is the difference between the amount loaned to us plus interest due to the counterparty and the fair value of the collateral pledged by us to the lender including accrued interest receivable on such collateral.

extent that our unrealized gains on derivative instruments exceeds the amount of the counterparty's securities or cash pledged to us.

We monitor our exposure to counterparties across several dimensions including by type of arrangement, collateral type, counterparty type, ratings and geography.

The following table summarizes our exposure to counterparties by geography as of December 31, 2014:

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Country	Number of Counterparties	Repurchase Agreement Financing	Interest Rate Swaps at Fair Value	Exposure(1)
		(dollars in thousands)		
North America	17	$ 49,751,635	$ (1,157,868)	$ 2,993,453
Europe	10	17,710,251	(375,193)	943,289
Asia (non-Japan)	1	627,059	-	34,339
Japan	4	3,272,981	-	190,091
Total	32	$ 71,361,926	$ (1,533,061)	$ 4,161,172

(1) Represents the amount of cash and/or securities pledged as collateral to each counterparty less the aggregate of repurchase agreement financing and unrealized loss on swaps for each counterparty.

Operational Risk Management

We are subject to operational risk in each of our business and support functions. Operational risk may arise from internal or external sources including human error, fraud, systems issues, process change, vendors, business interruptions and other external events. Model risk considers potential errors with a model's results due to uncertainty in model parameters and inappropriate methodologies used. The result of these risks may include financial loss and reputational damage. We manage operational risk through a variety of tools including policies and procedures which cover topics such as business continuity, personal conduct and vendor management. Other tools include training on topics such as cyber security awareness; testing, including disaster recovery testing; systems controls, including access controls; and monitoring, which includes the use of key risk indicators. Employee level lines of defense against operational risk include proper segregation of incompatible duties, activity-level internal controls over financial reporting, the empowerment of business units to identify and mitigate operational risk sources, an independent operational risk group which reports to the Chief Risk Officer of our Manager, testing by our internal audit staff, and our overall governance framework.

Compliance, Regulatory and Legal Risk Management

Our business is organized as a REIT and we plan to continue to meet the requirements for taxation as a actual and potential legal action that may affect us. Our risk management framework is designed to identify, monitor and manage these risks under the oversight of the Enterprise Risk Committee.

We currently rely on the exemption from registration provided by Section 3(c)(5)(C) of the Investment Company Act and we plan to continue to meet the requirements for this exemption from registration. The determination that we qualify for this exemption from registration depends on various factual matters and circumstances. Accordingly, in conjunction with the legal department, we closely monitor our compliance with Section 3(c)(5)(C) within our risk management program. The monitoring of this risk is also under the oversight of the Enterprise Risk Committee.

As a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the U.S. Commodity Futures Trading Commission (or CFTC) gained jurisdiction over the regulation of interest rate swaps. The CFTC has asserted that this causes the operators of mortgage real estate investment trusts that use swaps as part of their business model to fall within the statutory definition of Commodity Pool Operator (or CPO), and, absent relief from the Division or the Commission, to register as CPOs. On December 7, 2012, as a result of numerous requests for no-action relief from the CPO registration requirement for operators of mortgage real estate investment trusts, the Division of Swap Dealer and Intermediary Oversight of the CFTC issued no-action relief entitled "No-Action

REIT. The determination that we are a REIT requires an analysis of various factual matters and circumstances. Accordingly, we closely monitor our REIT status within our risk management program. The financial services industry is highly regulated and continues to receive increasing attention from regulators which may impact both our company as well as our business strategy. We proactively monitor the potential impact regulation may have both directly and indirectly on us. We maintain a process to actively monitor both

Relief from the Commodity Pool Operator Registration Requirement for Commodity Pool Operators of Certain Pooled Investment Vehicles Organized as Mortgage Real Estate Investment Trusts" that permits a CPO to receive relief by filing a claim to perfect the use of the relief. A claim submitted by a CPO will be effective upon filing, so long as the claim is materially complete. The conditions that must be met to claim the relief are that the mortgage real estate investment trust relate to initial margin and premiums requirements, net income derived annually from commodity interest positions that are not qualifying hedging

transactions, marketing of interests in the mortgage real estate investment trust to the public, and identification of the entity as a mortgage real estate investment trust in its federal tax filings with the Internal Revenue Service. While we disagree that the CFTC's position that mortgage real estate investment trusts that use swaps as part of their business model fall within the statutory definition of a CPO, we have submitted a claim for the relief set forth in the no-action relief entitled "No-Action Relief from the Commodity Pool Operator Registration Requirement for Commodity Pool Operators of Certain Pooled Investment Vehicles Organized as Mortgage Real Estate Investment Trusts" and believe we meet the criteria for such relief set forth therein.

Critical Accounting Policies and Estimates

Our critical accounting policies which require us to make significant judgments or estimates are described below. For more information on these critical accounting policies and other significant accounting policies, see "Significant Accounting Policies" in the Notes to the Consolidated Financial Statements.

Valuation of Financial Instruments

Agency mortgage-backed securities and debentures

There is an active market for Agency mortgage-backed securities and debentures. Since we primarily invest in securities that can be measured from actively quoted prices, there is a high degree of observable inputs and less subjectivity in measuring fair value. Internal market values are determined using quoted prices from the To-Be-Announced (or TBA) security market, the Treasury curve and the underlying characteristics of the individual securities, which may include coupon, periodic and life caps, reset dates and the expected life of the security. Prepayment rates are difficult to predict and are a significant estimate requiring judgment in the valuation of Agency mortgage-backed securities. All internal market values are compared to external pricing sources and/or dealer quotes to determine reasonableness. Additionally, securities used as collateral for repurchase agreements are priced daily by counterparties to ensure sufficient collateralization, us to most accurately determine the fair value of interest rate swaps. Consistent with market practice, we have negotiated agreements with certain counterparties to exchange collateral (or margining) based on the level of fair values of the interest rate swaps. Through this margining process, one party or each party to a derivative contract provides the other party with information about the fair value of the derivative contract to calculate the amount of collateral required, providing additional verification of our recorded fair value of the interest rate swaps.

Revenue Recognition

Interest income from coupon payments is accrued based on the outstanding principal amounts of the Investment Securities and their contractual terms. Premiums and discounts associated with the purchase of the Investment Securities are amortized or accreted into interest income over the projected lives of the securities using the interest method. We use a third-party supplied model to project prepayment speeds. Our prepayment speed projections incorporate underlying loan characteristics (e.g., coupon, term, original loan size, original loan to value, etc.) and market data, including interest rate and home price index forecasts and expert judgement. Prepayment speeds vary according to the type of investment, conditions in the financial markets and other factors and cannot be predicted with any certainty. Adjustments are made for actual prepayment activity as it relates to calculating the effective yield. Gains or losses on investment securities are recorded on trade date based on the average cost of the security.

Consolidation of Variable Interest Entities

Determining whether an entity has a controlling financial interest in a VIE requires significant judgment related to assessing the purpose and design of the VIE and determination of the activities that most significantly impact its economic performance. We must also identify explicit and implicit variable interests in the entity and consider our involvement in both the design of the VIE and its ongoing activities. To determine whether consolidation of the VIE is required, we must apply judgment to assess whether we have the

providing additional verification of our internal pricing.

Interest rate swaps

We use the overnight indexed swap (or OIS) curve as an input to value substantially all of our interest rate swaps. We believe using the OIS curve, which reflects the interest rate typically paid on cash collateral, enables

power to direct the most significant activities of the VIE and whether we have either the rights to receive benefits or obligation to absorb losses that could be potentially significant to the VIE.

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Glossary of Terms

A

Adjustable-Rate Mortgage (ARM)
A mortgage loan on which interest rates are adjusted at regular intervals according to predetermined criteria. An ARM's interest rate is tied to an objective, published interest rate index.

Agency
Refers to a federally chartered corporation, such as the Federal National Mortgage Association, or the Federal Home Loan Mortgage Corporation, or an agency of the U.S. Government, such as the Government National Mortgage Association.

Agency Debentures
Debt issued by a federal agency or a government-sponsored enterprise (GSE) for financing purposes. These types of debentures are not backed by collateral, but by the integrity and credit worthiness of the issuer. Agency debentures issued by a GSE are backed only by that GSE's ability to pay. The callable feature allows the agency to repay the bond prior to maturity.

Agency Mortgage-Backed Securities
Refers to residential mortgage-backed securities that are issued or guaranteed by an Agency.

Amortization
Liquidation of a debt through installment payments. Amortization also refers to the process of systematically reducing a recognized asset or liability (e.g., a purchase premium or discount for a debt security) with an offset to earnings.

Average Life
On a mortgage-backed security, the average time to receipt of each dollar of principal, weighted by the amount of each principal prepayment, based on prepayment assumptions.

Beneficial Owner
One who benefits from owning a security, even if the security's title of ownership is in the name of a broker or bank.

B-Note
Subordinate mortgage notes and/or subordinate mortgage loan participations.

B-Piece
The most subordinate commercial mortgage-backed security bond class.

Bond
(1) The written evidence of debt, bearing a stated rate or stated rates of interest, or stating a formula for determining that rate, and maturing on a date certain, on which date and upon presentation a fixed sum of money plus interest (usually represented by interest coupons attached to the bond) is payable to the holder or owner. (2) For purposes of computations tied in to "per bond," a $1,000 increment of an issue is used (no matter what the actual denominations are); (3) Bonds are long-term securities with an original maturity of greater than one year.

Book Value Per Share
Calculated by summing common stock, additional paid-in capital, accumulated other comprehensive income (loss) and accumulated deficit and dividing that number by the total common shares outstanding.

Broker
Generic name for a securities firm engaged in both buying and selling securities on behalf of customers on its own account.

C

Capital Buffer

B

Basis Point (BPs)
One hundredth of one percent, used in expressing differences in interest rates. One basis point is 0.01% of yield. For example, a bond's yield that changed from 3.00% to 3.50% would be said to have moved 50 basis points.

Benchmark
A bond or an index referencing a basket of bonds whose terms are used for comparison with other bonds of similar maturity. The global financial market typically looks to U.S. Treasury securities as benchmarks.

Includes unencumbered financial assets which can be utilized as collateral to meet liquidity needs.

Capital Ratio
Calculated as total stockholders' equity divided by total assets.

Collateral
Securities, cash or property pledged by a borrower or party to a derivative contract to secure payment of a loan or derivative. If the borrower fails to repay the loan or defaults under the derivative contract, the secured party may take ownership of the collateral.

Collateralized Mortgage Obligation (CMO)
A multiclass bond backed by a pool of mortgage pass-through securities or mortgage loans.

Commodity Futures Trading Commission (CFTC)
An independent U.S. federal agency established by the Commodity Futures Trading Commission Act of 1974. The CFTC regulates the swaps, commodity futures and options markets. Its goals include the promotion of competitive and efficient futures markets and the protection of investors against manipulation, abusive trade practices and fraud.

Constant Prepayment Rate (CPR)
The percentage of outstanding mortgage loan principal that prepays in one year, based on the annualization of the Single Monthly Mortality, which reflects the outstanding mortgage loan principal that prepays in one month.

Conventional Mortgage Loan
A mortgage loan granted by a bank or thrift institution that is based solely on real estate as security and is not insured or guaranteed by a government agency.

Convertible Securities
Securities which may be converted into shares of another security under stated terms, often into the issuing company's common stock.

Convexity
A measure of the change in a security’s duration with respect to changes in interest rates. The more convex a security is, the more its duration will change with interest rate changes.

Core Earnings and Core Earnings Per Basic Share
Non-GAAP measure that 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 Agency interest-only mortgage-backed securities, net gains and losses on trading assets, impairment losses, net income (loss) attributable to noncontrolling interest and certain other non-recurring gains or losses.

Coupon
The interest rate on a bond that is used to compute the amount of interest due on a periodic basis.

Credit and Counterparty Risk
Risk to earnings, capital or business, resulting from an obligor’s or counterparty's failure to meet the terms of any contract or otherwise failure to perform as agreed. Credit and counterparty risk is present in lending, investing, funding and hedging activities.

Current Face
The current remaining monthly principal on a mortgage security. Current face is computed by multiplying the original face value of the security by the current principal balance factor.

D

Dealer
Person or organization that underwrites, trades and sells securities, e.g., a principal market-maker in securities.

Default Risk
Possibility that a bond issuer will fail to pay principal or interest when due.

Derivative
A financial product that derives its value from the price, price fluctuations and price expectations of an underlying instrument (e.g. futures contracts, options, interest rate swaps, interest rate swaptions and certain to-be-announced securities).

Discount Price
When the dollar price is below face value, it is said to be selling at a discount.

Duration
The weighted maturity of a fixed-income investment’s cash flows, used in the estimation of the price sensitivity of fixed-income securities for a given change in interest rates.

Corporate Debt
Non-government debt instruments issued by corporations. Long-term corporate debt can be issued as bonds or loans.

Counterparty
One of two entities in a transaction. For example, in the bond market a counterparty can be a state or local government, a broker-dealer or a corporation.

E

Economic Capital
A measure of the risk a firm is subject to. It is the amount of capital a firm needs as a buffer to protect against risk. It is a probabilistic measure of potential future losses at a given confidence level over a given time horizon.

Economic Interest Expense
Non-GAAP financial measure that is composed of GAAP interest expense adjusted for realized gains or losses on interest rate swaps.

Economic Net Interest Income
Non-GAAP financial measure that is composed of GAAP net interest income adjusted for realized gains or losses on interest rate swaps.

Encumbered Assets
Assets on the company's balance sheet which have been pledged as collateral against an existing liability.

F

Face Amount
The par value (i.e., principal or maturity value) of a security appearing on the face of the instrument.

Factor
A decimal value reflecting the proportion of the outstanding principal balance of a mortgage security, which changes over time, in relation to its original principal value.

Fannie Mae
Federal National Mortgage Association.

Federal Deposit Insurance Corporation (FDIC)
An independent agency created by the U.S. Congress to maintain stability and public confidence in the nation's financial system by insuring deposits, examining and supervising financial institutions for safety and soundness and consumer protection, and managing receiverships.

Federal Funds Rate
The interest rate charged by banks on overnight loans of their excess reserve funds to other banks.

Fixed-Rate Mortgage
A mortgage featuring level monthly payments, determined at the outset, which remain constant over the

Floating Rate CMO
A CMO tranche which pays an adjustable rate of interest tied to a representative interest rate index such as the LIBOR, the Constant Maturity Treasury or the Cost of Funds Index.

Freddie Mac
Federal Home Loan Mortgage Corporation.

Futures Contract
A legally binding agreement to buy or sell a commodity or financial instrument in a designated future month at a price agreed upon at the initiation of the contract by the buyer and seller. Futures contracts are standardized according to the quality, quantity, and delivery time and location for each commodity. A futures contract differs from an option in that an option gives one of the counterparties a right and the other an obligation to buy or sell, while a futures contract represents an obligation of both counterparties, one to deliver and the other to accept delivery. A futures contract is part of a class of financial instruments called derivatives.

G

GAAP
Accounting principles generally accepted in the United States of America.

Ginnie Mae
Government National Mortgage Association.

H

Hedge
An investment made with the intention of minimizing the impact of adverse movements in interest rates or securities prices.

I

In-the-Money

life of the mortgage.

Floating Rate Bond
A bond for which the interest rate is adjusted periodically according to a predetermined formula, usually linked to an index.

Description for an option that has intrinsic value and can be sold or exercised for a profit; a call option is in-the-money when the strike price (execution price) is below the market price of the underlying security.

Interest Bearing Liabilities
Refers to repurchase agreements, convertible senior notes, securitized debt of consolidated VIE, participation sold, FHLB Des Moines advances, U.S. Treasury securities sold, not yet purchased and securities loaned. Average Interest Bearing Liabilities is based on daily balances.

Interest Earning Assets
Refers to Investment Securities, securities borrowed, U.S. Treasury securities, reverse repurchase agreements, cash and cash equivalents and commercial real estate debt and preferred equity interests. Average Interest Earning Assets is based on daily balances.

Interest Only (IO) Bond
The interest portion of mortgage, Treasury or bond payments, which is separated and sold individually from the principal portion of those same payments.

Interest Rate Risk
The risk that an investment's value will change due to a change in the absolute level of interest rates, in the spread between two rates, in the shape of the yield curve or in any other interest rate relationship. As market interest rates rise, the value of current fixed income investment holdings declines. Diversifying, deleveraging and hedging techniques are utilized to mitigate this risk. Interest rate risk is a form of market risk.

Interest Rate Swap
A binding agreement between counterparties to exchange periodic interest payments on some predetermined dollar principal, which is called the notional principal amount. For example, one party will pay fixed and receive a variable rate.

Interest Rate Swaption
Options on interest rate swaps. The buyer of a swaption has the right to enter into an interest rate swap agreement at some specified date in the future. The swaption agreement will specify whether the buyer of the swaption will be a fixed-rate receiver or a fixed-rate payer.

Internal Capital Adequacy Assessment Program (ICAAP)
The ongoing assessment and measurement of risks, and the amount of capital which is necessary to hold against those risks. The objective is to ensure that a firm is appropriately capitalized relative to the risks in its business.

Investment/Market Risk
Risk to earnings, capital or business resulting in the decline in value of our assets caused from changes in market variables, such as interest rates, which affect the values of invested securities and other investment instruments.

Investment Securities
Refers to Agency mortgage-backed securities and Agency debentures.

L

Leverage
The use of borrowed money to increase investing power and economic returns.

Leverage Ratio
Calculated as total debt to total stockholders' equity. For purposes of calculating this ratio total debt includes repurchase agreements, Convertible Senior Notes and non-recourse securitized debt of consolidated VIE, loan participation sold and mortgages payable.

LIBOR (London Interbank Offered Rate)
The rate banks charge each other for short-term Eurodollar loans. LIBOR is frequently used as the base for resetting rates on floating-rate securities and the floating-rate legs of interest rate swaps.

Liquidity Risk
Risk to earnings, capital or business arising from our inability to meet our obligations when they come due without incurring unacceptable losses because of inability to liquidate assets or obtain adequate funding.

Long-Term Debt
Debt which matures in more than one year.

M

Master Netting Agreement

International Swaps and Derivatives Association (ISDA) Master Agreement
Standardized contract developed by ISDA used as an umbrella under which bilateral derivatives contracts are entered into.

Inverse IO Bond
An interest-only bond whose coupon is determined by a formula expressing an inverse relationship to a benchmark rate, such as LIBOR. As the benchmark rate changes, the IO coupon adjusts in the opposite direction. When the benchmark rate is relatively low, the IO pays a relatively high coupon payment, and vice versa.

An agreement between two counterparties who have multiple derivative contracts or repurchase / reverse repurchase agreements with each other that provides for the net settlement of all contracts, as well as cash collateral, through a single payment, in a single currency, in the event of default on or termination of any one contract.

Monetary Policy
Action taken by the Board of Governors of the Federal Reserve System to influence the money supply or interest rates.

Mortgage-Backed Security (MBS)
A security representing a direct interest in a pool of mortgage loans. The pass-through issuer or servicer collects the payments on the loans in the pool and "passes through" the principal and interest to the security holders on a pro rata basis.

N

NAV
Net asset value.

Net Equity Yield
Calculated using GAAP net income, excluding depreciation and amortization expense, divided by average net equity.

Net Interest Income
Represents interest income earned on our portfolio investments, less interest expense paid for borrowings.

Net Interest Margin
Represents annualized economic net interest income, inclusive of interest expense on interest rate swaps, divided by average Interest Earning Assets.

Net Interest Spread
Calculated by taking the average yield on interest earning assets minus the average cost of interest bearing liabilities, including the net interest payments on interest rate swaps.

Notional Amount
A stated principal amount in a derivative contract on which the contract is based.

O

Operational Risk
Risk to earnings, capital, reputation or business arising from inadequate or failed internal processes or systems, human factors or external events.

Original Face
The face value or original principal amount of a security on its issue date.

Out-of-the-Money
Description for an option that has no intrinsic value and would be worthless if it expired today; for a call option, this situation occurs when the strike price is higher than the market price of the underlying security; for a put option, this situation occurs when the strike price is less than the market price of the underlying security.

Over-The-Counter (OTC) Market
A securities market that is conducted by dealers throughout the country through negotiation of price rather than through the use of an auction system as represented by a stock exchange.

P

Pass Through Security
The securitization structure where a GSE or other entity "passes" the amount collected from the borrowers every month to the investor, after deducting fees and expenses.

Principal and Interest
The term used to refer to regularly scheduled payments or prepayments of principal and payments of interest on a mortgage or other security.

Par
Price equal to the face amount of a security; 100%.

Par Amount
The principal amount of a bond or note due at maturity. Also known as par value.

Pool

Option Contract
A contract in which the buyer has the right, but not the obligation, to buy or sell an asset at a set price on or before a given date. Buyers of call options bet that a security will be worth more than the price set by the option (the strike price), plus the price they pay for the option itself. Buyers of put options bet that the security's price will drop below the price set by the option. An option is part of a class of financial instruments called derivatives, which means these financial instruments derive their value from the worth of an underlying investment.

A collection of mortgage loans assembled by an originator or master servicer as the basis for a security. In the case of Ginnie Mae, Fannie Mae, or Freddie Mac mortgage pass-through securities, pools are identified by a number assigned by the issuing agency.

Premium
The amount by which the price of a security exceeds its principal amount. When the dollar price of a bond is above its face value, it is said to be selling at a premium.

Prepayment
The unscheduled partial or complete payment of the principal amount outstanding on a mortgage loan or other debt before it is due.

Prepayment Risk
The risk that falling interest rates will lead to heavy prepayments of mortgage or other loans, forcing the investor to reinvest at lower prevailing rates.

Prime Rate
The indicative interest rate on loans that banks quote to their best commercial customers.

R

Rate Reset
The adjustment of the interest rate on a floating-rate security according to a prescribed formula.

Real Estate Investment Trust (REIT)
A special purpose investment vehicle that provides investors with the ability to participate directly in the ownership or financing of real-estate related assets by pooling their capital to purchase and manage mortgage loans and/or income property.

Reinvestment Risk
The risk that interest income or principal repayments will have to be reinvested at lower rates in a declining rate environment.

Repurchase Agreement
The sale of securities to investors with the agreement to buy them back at a higher price after a specified time period; a form of short-term borrowing. For the party on the other end of the transaction (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement.

Residual
In a CMO, the residual is that tranche which collects any cash flow from the collateral that remains after obligations to the other tranches have been met.

Risk Appetite Statement
Defines the types and levels of risk we are willing to take in order to achieve our business objectives, and reflects our risk management philosophy.

S

Secondary Market
Ongoing market for bonds previously offered or sold in the primary market.

Settlement Date
The date securities must be delivered and paid for to complete a transaction.

Short-Term Debt
Generally, debt which matures in one year or less. However, certain securities that mature in up to three years may be considered short-term debt.

Spread
When buying or selling a bond through a brokerage firm, an individual investor will be charged a commission or spread, which is the difference between the market price and cost of purchase, and sometimes a service fee. Spreads differ based on several factors including liquidity.

T

Target Assets
Includes Agency mortgage-backed securities, to-be-announced forward contracts, Agency debentures, commercial real estate investments, other mortgage-backed securities and corporate debt.

To-Be-Announced Securities (TBAs)
A contract for the purchase or sale of a mortgage-backed security to be delivered at a predetermined price, face amount, issuer, coupon and stated maturity on an agreed-upon future date but does not include a specified pool number and number of pools.

Return on Average Equity
Calculated by taking earnings divided by average stockholders' equity.

Reverse Repurchase Agreement
Refer to Repurchase Agreement. From the customer's perspective, the customer provides a collateralized loan to the seller.

Total Return
Investment performance measure over a stated time period which includes coupon interest, interest on interest, and any realized and unrealized gains or losses.

Total Return Swap
A derivative instrument where one party makes payments at a predetermined rate (either fixed or variable) while receiving a return on a specific asset (generally an equity index, loan or bond) held by the counterparty.

U

Unencumbered Assets
Assets on our balance sheet which have not been pledged as collateral against an existing liability.

U.S. Government-Sponsored Enterprise (GSE) Obligations
Obligations of agencies originally established or chartered by the U.S. government to serve public purposes as specified by the U.S. Congress; these obligations are not explicitly guaranteed as to the timely payment of principal and interest by the full faith and credit of the U.S. government.

V

Value-at-Risk (VaR)
A statistical technique which measures the potential loss in value of an asset or portfolio over a defined period for a given confidence interval.

Volatility
A statistical measure of the variance of price or yield over time. Volatility is low if the price does not change very much over a short period of time, and high if there is a greater change.

W

Warehouse Lending
A line of credit extended to a loan originator to fund mortgages extended by the loan originators to property purchasers. The loan typically lasts from the time the mortgage is originated to when the mortgage is sold into the secondary market, whether directly or through a securitization. Warehouse lending can provide liquidity to the loan origination market.

Weighted Average Coupon
The weighted average interest rate of the underlying mortgage loans or pools that serve as collateral for a security, weighted by the size of the principal loan balances.

Weighted Average Life (WAL)
The assumed weighted average amount of time that will elapse from the date of a security's issuance until each dollar of principal is repaid to the investor. The WAL will change as the security ages and depending on the actual realized rate at which principal, scheduled and unscheduled, is paid on the loans underlying the MBS.

Y

Yield-to-Maturity
The expected rate of return of a bond if it is held to its maturity date; calculated by taking into account the current market price, stated redemption value, coupon payments and time to maturity and assuming all coupons are reinvested at the same rate; equivalent to the internal rate of return.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and qualitative disclosures about market risk are contained within the section titled "Risk Management" of Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations."

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our financial statements and the related notes, together with the Report of Independent Registered Public Accounting Firm thereon, are set forth beginning on page F-1 of this Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Our management, including our Chief Executive Officer (the CEO) and Chief Financial Officer (the CFO), reviewed and evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act) as of the end of the period covered by this report. Based on that review and evaluation, the CEO and CFO have concluded that our current disclosure controls and procedures, as designed and implemented, (1) were effective in ensuring that information regarding the Company and its subsidiaries is accumulated and communicated to our management, including our CEO and CFO, by our employees, as appropriate to allow timely decisions regarding required disclosure and (2) were effective in providing reasonable assurance that information the Company must disclose in its periodic reports under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods prescribed by the SEC's rules and forms.

to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

provide reasonable assurance regarding prevention or

There have been no changes in our internal controls over financial reporting that occurred during the quarter ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

Management Report On Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) under the Securities Exchange Act as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's board of directors, management and other personnel timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. As a result, even systems determined to be effective can provide only reasonable assurance regarding the preparation and presentation of financial statements. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

The Company’s management assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2014. In making this assessment, the Company’s management used criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission's (or COSO) Internal Control-Integrated Framework (2013).

Based on management’s assessment management believes that as of December 31, 2014, the Company’s internal control over financial reporting was effective based on those criteria. The Company’s independent registered public accounting firm, Ernst and Young LLP, has issued an attestation report on the Company’s internal control over financial reporting, which is included herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of
Annaly Capital Management, Inc. and Subsidiaries

We have audited Annaly Capital Management, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Annaly Capital Management, Inc. and Subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Annaly Capital Management, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial condition of Annaly Capital Management, Inc. and Subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended December 31, 2014 of Annaly Capital Management Inc. and Subsidiaries and our report dated February 26, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, NY
February 26, 2015

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 as to our directors is incorporated herein by reference to the proxy statement to be filed with the SEC within 120 days after December 31, 2014. The information regarding our executive officers required by Item 10 appears in Part I of this Form 10-K. The information required by Item 10 as to our compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated by reference to the proxy statement to be filed with the SEC within 120 days after December 31, 2014.

We have adopted a Code of Business Conduct and Ethics within the meaning of Item 406(b) of Regulation S-K. This Code of Business Conduct and Ethics applies to our principal executive officer, principal financial officer and principal accounting officer. This Code of Business Conduct and Ethics is publicly available on our website at www.annaly.com. If we make substantive amendments to this Code of Business Conduct and Ethics or grant any waiver, including any implicit waiver, we intend to disclose these events on our website.

The information regarding certain matters pertaining to our corporate governance required by Item 407(c)(3), (d)(4) and (d)(5) of Regulation S-K is incorporated by reference to the Proxy Statement to be filed with the SEC within 120 days after December 31, 2014.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated herein by reference to the proxy statement to be filed with the SEC within 120 days after December 31, 2014.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 12 is incorporated herein by reference to the proxy statement to be filed with the SEC within 120 days after December 31, 2014.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 13 is incorporated herein by reference to the proxy statement to be filed with the SEC within 120 days after December 31, 2014.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by Item 14 is incorporated herein by reference to the proxy statement to be filed with the SEC within 120 days after December 31, 2014.

ANNALY CAPITAL MANAGEMENT, INC. & SUBSIDIARIES
Exhibits, Financial Statement Schedules

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this report:

1. Financial Statements.

2. Schedules to Financial Statements:

All financial statement schedules not included have been omitted because they are either inapplicable or the information required is provided in our Financial Statements and Notes thereto, included in Part II, Item 8, of this annual report on Form 10-K.

3. Exhibits:

EXHIBIT INDEX

Exhibit Number	Exhibit Description
3.1	Articles of Amendment and Restatement of the Articles of Incorporation of the Registrant (incorporated by reference to Exhibit 3.2 to the Registrant’s Registration Statement on Form S-11 (Registration No. 333-32913) filed with the Securities and Exchange Commission on August 5, 1997).
3.2	Articles of Amendment of the Articles of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 of the Registrant’s Registration Statement on Form S-3 (Registration Statement 333-74618) filed with the Securities and Exchange Commission on June 12, 2002).
3.3	Articles of Amendment of the Articles of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 of the Registrant's Form 8-K (filed with the Securities and Exchange Commission on August 3, 2006)).
3.4	Articles of Amendment of the Articles of Incorporation of the Registrant (incorporated by reference to Exhibit 3.4 of the Registrant's Form 10-Q (filed with the Securities and Exchange Commission on May 7, 2008)).
3.5	Articles of Amendment of the Articles of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 of the Registrant's Form 8-K (filed with the Securities and Exchange Commission on June 23, 2011)).
3.6	Form of Articles Supplementary designating the Registrant’s 7.875% Series A Cumulative Redeemable Preferred Stock, liquidation preference $25.00 per share (incorporated by reference to Exhibit 3.3 to the Registrant’s 8-A filed April 1, 2004).
3.7	Articles Supplementary of the Registrant’s designating an additional 2,750,000 shares of the Company’s 7.875% Series A Cumulative Redeemable Preferred Stock, as filed with the State Department of Assessments and Taxation of Maryland on October 15, 2004 (incorporated by reference to Exhibit 3.2 to the Registrant’s 8-K filed October 4, 2004).
3.8	

	Articles Supplementary designating the Registrant's 6% Series B Cumulative Convertible Preferred Stock, liquidation preference $25.00 per share (incorporated by reference to Exhibit 3.1 to the Registrant's 8-K filed April 10, 2006).
3.9	Articles Supplementary designating the Registrant's 7.625% Series C Cumulative Redeemable Preferred Stock, liquidation preference $25.00 per share (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed May 16, 2012).
3.10	Articles Supplementary designating the Registrant's 7.50% Series D Cumulative Redeemable Preferred Stock, liquidation preference $25.00 per share (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed September 13, 2012).
3.11	Amended and Restated Bylaws of the Registrant, as amended (incorporated by reference to Exhibit 3.1 of the Registrant's Form 8-K (filed with the Securities and Exchange Commission on March 22, 2011)).

ANNALY CAPITAL MANAGEMENT, INC. & SUBSIDIARIES
Exhibits, Financial Statement Schedules

3.12	Amendment to the Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit 3.12 of the Registrant's Quarterly Report on Form 10-Q filed on August 8, 2013).
4.1	Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 to Amendment No. 1 to the Registrant's Registration Statement on Form S-11 (Registration No. 333-32913) filed with the Securities and Exchange Commission on September 17, 1997).
4.2	Specimen Preferred Stock Certificate (incorporated by reference to Exhibit 4.2 to the Registrant's Registration Statement on Form S-3 (Registration No. 333-74618) filed with the Securities and Exchange Commission on December 5, 2001).
4.3	Specimen Series A Preferred Stock Certificate (incorporated by reference to Exhibit 4.1 of the Registrant's Registration Statement on Form 8-A filed with the SEC on April 1, 2004).
4.4	Specimen Series B Preferred Stock Certificate (incorporated by reference to Exhibit 4.1 to the Registrant's Form 8-K filed with the Securities and Exchange Commission on April 10, 2006).
4.5	Specimen Series C Preferred Stock Certificate (incorporated by reference to Exhibit 4.1 to the Registrant's Form 8-K filed with the Securities and Exchange Commission on May 16, 2012).
4.6	Specimen Series D Preferred Stock Certificate (incorporated by reference to Exhibit 4.1 to the Registrant's Form 8-K filed with the Securities and Exchange Commission on September 13, 2012).
4.7	Indenture, dated as of February 12, 2010, between the Registrant and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.1 to the Registrant's Form 8-K filed with the Securities and Exchange Commission on February 12, 2010).
4.8	Supplemental Indenture, dated as of February 12, 2010, between the Registrant and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.2 to the Registrant's Form 8-K filed with the Securities and Exchange Commission on February 12, 2010).
4.9	Form of 4.00% Convertible Senior Note due 2015 (included in Exhibit 4.8).
4.10	Second Supplemental Indenture, dated as of May 14, 2012, between the Registrant and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.2 to the Registrant's Form 8-K filed with the Securities and Exchange Commission on May 14, 2012).
4.11	Form of 5.00% Convertible Senior Note due 2015 (included in Exhibit 4.10).
10.1	Long-Term Stock Incentive Plan (incorporated by reference to Exhibit 10.3 to the Registrant's Registration Statement on Form S-11 (Registration No. 333-32913) filed with the Securities and Exchange Commission on August 5, 1997).*
10.2	Form of Master Repurchase Agreement (incorporated by reference to Exhibit 10.7 to the Registrant's Registration Statement on Form S-11 (Registration No. 333-32913) filed with the Securities and Exchange Commission on August 5, 1997).
10.3	Management Agreement, effective as of July 1, 2013, by and between the Registrant and Annaly Management Company LLC (incorporated by reference from Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 2, 2013).*
10.4	Amendment No. 1 to Management Agreement, dated as of November 5, 2014, by and between the Registrant and Annaly Management Company LLC (incorporated by reference from Exhibit 10.1 to the Registrant's Form 10-Q filed with the Securities and Exchange Commission on November 6, 2014).*
10.5	Registrant's 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report Form 8-K filed with the SEC on June 1, 2010).*
12. 1	Computation of ratio of earnings to combined fixed charges and preferred stock dividends and ratio of earnings to fixed charges.
21.1	Subsidiaries of Registrant.
23.1	Consent of Ernst & Young LLP.

31.1	Certification of Wellington J. Denahan, Chairman and Chief Executive Officer of the Registrant, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Glenn A. Votek, Chief Financial Officer (Principal Financial Officer) of the Registrant, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

ANNALY CAPITAL MANAGEMENT, INC. & SUBSIDIARIES
Exhibits, Financial Statement Schedules

32.1	Certification of Wellington J. Denahan, Chairman and Chief Executive Officer of the Registrant, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Glenn A. Votek, Chief Financial Officer (Principal Financial Officer) of the Registrant, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 101.INS XBRL	Instance Document †
Exhibit 101.SCH XBRL	Taxonomy Extension Schema Document †
Exhibit 101.CAL XBRL	Taxonomy Extension Calculation Linkbase Document †
Exhibit 101.DEF XBRL	Additional Taxonomy Extension Definition Linkbase Document Created†
Exhibit 101.LAB XBRL	Taxonomy Extension Label Linkbase Document †
Exhibit 101.PRE XBRL	Taxonomy Extension Presentation Linkbase Document †

* Exhibit Numbers 10.1, 10.3, 10.4 and 10.5 are management contracts or compensatory plans required to be filed as Exhibits to this Form 10-K.

† Submitted electronically herewith. Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Financial Condition at December 31, 2014 and December 31, 2013; (ii) Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2014, 2013 and 2012; (iii) Consolidated Statements of Stockholders' Equity for the years ended December 31, 2014, 2013 and 2012; (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012; and (v) Notes to Consolidated Financial Statements. Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities and Exchange Act of 1934, and otherwise is not subject to liability under these sections.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

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ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
Item 15. Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of
Annaly Capital Management, Inc. and Subsidiaries

We have audited the accompanying consolidated statements of financial condition of Annaly Capital Management, Inc. and Subsidiaries (the “Company”) as of December 31, 2014 and 2013, and the related consolidated statements of comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Annaly Capital Management, Inc. and Subsidiaries at December 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Annaly Capital Management, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 26, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

February 26, 2015

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
Item 15. Financial Statements

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

	December 31, 2014	December 31, 2013
ASSETS		
Cash and cash equivalents (including cash pledged as collateral of $1,584,701 and $371,790, respectively)	$1,741,244	$552,436
Reverse repurchase agreements	100,000	100,000
Securities borrowed	-	2,582,893
Investments, at fair value:		
U.S. Treasury securities (including pledged assets of $0 and $1,113,027, respectively)	-	1,117,915
Agency mortgage-backed securities (including pledged assets of $74,006,480 and $63,897,873, respectively)	81,565,256	70,388,949
Agency debentures (including pledged assets of $1,368,350 and $2,931,261, respectively)	1,368,350	2,969,885
Investment in affiliates	143,045	139,447
Commercial real estate debt and preferred equity(1)	1,518,165	1,583,969
Investments in commercial real estate	210,032	60,132
Corporate debt, held for investment	166,464	117,687
Receivable for investments sold	1,010,094	1,193,730
Accrued interest and dividends receivable	278,489	273,079
Receivable for investment advisory income (including from affiliates of $10,402 and $6,839, respectively)	10,402	6,839
Goodwill	94,781	94,781
Interest rate swaps, at fair value	75,225	559,044
Other derivatives, at fair value	5,499	146,725
Other assets	68,321	34,949
Total assets	$88,355,367	$81,922,460
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Liabilities:		
U.S. Treasury securities sold, not yet purchased, at fair value	$-	$1,918,394
Repurchase agreements	71,361,926	61,781,001
Securities loaned	-	2,527,668
Payable for investments purchased	264,984	764,131
Convertible Senior Notes	845,295	825,262
Securitized debt of consolidated VIE	260,700	-
Mortgages payable	146,553	19,332
Participation sold	13,693	14,065
Accrued interest payable	180,501	160,921

Dividends payable	284,293	284,230
Interest rate swaps, at fair value	1,608,286	1,141,828
Other derivatives, at fair value	8,027	55,518
Accounts payable and other liabilities	47,328	25,055
Total liabilities	75,021,586	69,517,405
Stockholders' Equity:		
7.875% Series A Cumulative Redeemable Preferred Stock: 7,412,500 authorized, issued and outstanding	177,088	177,088
7.625% Series C Cumulative Redeemable Preferred Stock: 12,650,000 authorized, 12,000,000 issued and outstanding	290,514	290,514
7.50% Series D Cumulative Redeemable Preferred Stock: 18,400,000 authorized, issued and outstanding	445,457	445,457
Common stock, par value $0.01 per share, 1,956,937,500 authorized, 947,643,079 and 947,432,862 issued and outstanding, respectively	9,476	9,474
Additional paid-in capital	14,786,509	14,765,761
Accumulated other comprehensive income (loss)	204,883	(2,748,933)
Accumulated deficit	(2,585,436)	(534,306)
Total stockholders' equity	13,328,491	12,405,055
Noncontrolling interest	5,290	-
Total equity	13,333,781	12,405,055
Total liabilities and equity	$88,355,367	$81,922,460

(1) Includes senior securitized mortgages of consolidated VIE with a carrying value of $398.6 million and $0 at December 31, 2014 and 2013, respectively.

See notes to consolidated financial statements.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
Item 15. Financial Statements

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

	For The Years Ended December 31,		
	2014	2013	2012
Net interest income:			
Interest income	$2,632,647	$2,918,562	$3,259,145
Interest expense	512,659	624,714	667,172
Net interest income	2,119,988	2,293,848	2,591,973
Other income (loss):			
Realized gains (losses) on interest rate swaps(1)	(825,360)	(908,294)	(893,769)
Realized gains (losses) on termination of interest rate swaps	(779,333)	(101,862)	(2,385)
Unrealized gains (losses) on interest rate swaps	(948,755)	2,002,200	(32,219)
Subtotal	(2,553,448)	992,044	(928,373)
Investment advisory income	31,343	43,643	82,138
Net gains (losses) on disposal of investments	93,716	403,045	432,139
Net loss on extinguishment of 4% Convertible Senior Notes	-	-	(162,340)
Dividend income from affiliates	25,189	18,575	28,336
Net gains (losses) on trading assets	(245,495)	1,509	22,910
Net unrealized gains (losses) on interest-only Agency mortgage-backed securities	(86,172)	244,730	(59,937)
Impairment of goodwill	-	(23,987)	-
Loss on previously held equity interest in CreXus	-	(18,896)	-
Other income (loss)	(12,737)	15,481	525
Subtotal	(194,156)	684,100	343,771
Total other income (loss)	(2,747,604)	1,676,144	(584,602)
General and administrative expenses:			
Compensation and management fee	155,560	167,366	190,702
Other general and administrative expenses	53,778	64,715	44,857
Total general and administrative expenses	209,338	232,081	235,559
Income (loss) before income taxes	(836,954)	3,737,911	1,771,812
Income taxes	5,325	8,213	35,912
Net income (loss)	(842,279)	3,729,698	1,735,900
Net income (loss) attributable to noncontrolling interest	(196)	-	-
Net income (loss) attributable to Annaly	(842,083)	3,729,698	1,735,900
Dividends on preferred stock	71,968	71,968	39,530
Net income (loss) available (related) to common stockholders	$(914,051)	$3,657,730	$1,696,370

Statement continued on following page.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
Item 15. Financial Statements

Net income (loss) per share available (related) to common stockholders:			
Basic	$(0.96)	$3.86	$1.74
Diluted	$(0.96)	$3.74	$1.71
Weighted average number of common shares outstanding:			
Basic	947,539,294	947,337,915	972,902,459
Diluted	947,539,294	995,557,026	1,005,755,057
Dividends declared per share of common stock	$1.20	$1.50	$2.05
Net income (loss)	$(842,279)	$3,729,698	$1,735,900
Other comprehensive income (loss):			
Unrealized gains (losses) on available-for-sale securities	3,048,291	(5,378,089)	482,765
Reclassification adjustment for net (gains) losses included in net income (loss)	(94,475)	(424,086)	(438,511)
Other comprehensive income (loss)	2,953,816	(5,802,175)	44,254
Comprehensive income (loss)	2,111,537	(2,072,477)	1,780,154
Comprehensive income (loss) attributable to noncontrolling interest	(196)	-	-
Comprehensive income (loss) attributable to Annaly	$2,111,733	$(2,072,477)	$1,780,154

(1) Interest expense related to the Company's interest rate swaps is recorded in Realized losses on interest rate swaps on the Consolidated Statements of Operations and Comprehensive Income (Loss).

See notes to consolidated financial statements.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
Item 15. Financial Statements

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2014, 2013, AND 2012
(dollars in thousands, except per share data)

	7.875% Series A Cumulative Redeemable Preferred Stock	7.625% SeriesC Cumulative Redeemable Preferred Stock	7.50% Series D Cumulative Redeemable Preferred Stock	Common Stock Par Value	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total stockholders' equity	Noncontrolling Interest	
BALANCE, December 31, 2011	177,088	-	-	9,702	15,068,870	3,008,988	(2,504,006)	15,760,642	-	1
Net income (loss) attributable to Annaly	-	-	-	-	-	-	1,735,900	1,735,900	-	1
Unrealized gains (losses) on available-for-sale securities	-	-	-	-	-	482,765	-	482,765	-	4
Reclassification adjustment for net (gains) losses included in net income (loss)	-	-	-	-	-	(438,511)	-	(438,511)	-	(
Exercise of stock options	-	-	-	6	8,432	-	-	8,438	-	8
Stock compensation expense	-	-	-	-	5,584	-	-	5,584	-	5
Conversion of Series B cumulative preferred stock	-	-	-	40	32,232	-	-	32,272	-	3
Net proceeds from direct purchase and dividend reinvestment	-	-	-	2	2,792	-	-	2,794	-	2
Contingent beneficial conversion feature on 4% Convertible	-	-	-	-	61,725	-	-	61,725	-	6

Senior Notes										
Equity component on 5% Convertible Senior Notes	-	-	-	-	11,717	-	-	11,717	-	1
Offering expenses	-	-	-	-	(248)	-	-	(248)	-	(
Net proceeds from 7.625% Series C Cumulative Redeemable Preferred Stock offering	-	290,514	-	-	-	-	-	290,514	-	2
Net proceeds from 7.50% Series D Cumulative Redeemable Preferred Stock offering	-	-	445,457	-	-	-	-	445,457	-	4
Extinguishment of convertible debt	-	-	-	-	(53,558)	-	-	(53,558)	-	(
Buyback of common stock	-	-	-	(278)	(396,772)	-	-	(397,050)	-	(
Disposal of subsidiary	-	-	-	-	-	-	5,223	5,223	-	5
Preferred Series A dividends, declared $1.97 per share	-	-	-	-	-	-	(14,593)	(14,593)	-	(
Preferred Series B dividends, declared $0.375 per share	-	-	-	-	-	-	(289)	(289)	-	(
Preferred Series C dividends, declared $1.19 per share	-	-	-	-	-	-	(14,297)	(14,297)	-	(
Preferred Series D dividends, declared $0.56 per share	-	-	-	-	-	-	(10,351)	(10,351)	-	(
Common dividends declared, $2.05 per share	-	-	-	-	-	-	(1,989,690)	(1,989,690)	-	(
BALANCE, December 31, 2012	177,088	290,514	445,457	9,472	14,740,774	3,053,242	(2,792,103)	15,924,444	-	1

Net income (loss) attributable to Annaly	-	-	-	-	-	-	3,729,698	3,729,698	-	3
Unrealized gains (losses) on available-for-sale securities	-	-	-	-	-	(5,378,089)	-	(5,378,089)	-	(
Reclassification adjustment for net (gains) losses included in net income (loss)	-	-	-	-	-	(424,086)	-	(424,086)	-	(
Exercise of stock options	-	-	-	2	2,202	-	-	2,204	-	2
Stock compensation expense	-	-	-	(2)	2,549	-	-	2,547	-	2
Net proceeds from direct purchase and dividend reinvestment	-	-	-	2	2,853	-	-	2,855	-	2
Contingent beneficial conversion feature on 4% Convertible Senior Notes	-	-	-	-	17,383	-	-	17,383	-	1
Disposal of subsidiary	-	-	-	-	-	-	20,923	20,923	-	2
Preferred Series A dividends, declared $1.97 per share	-	-	-	-	-	-	(14,593)	(14,593)	-	(
Preferred Series C dividends, declared $1.91 per share	-	-	-	-	-	-	(22,875)	(22,875)	-	(
Preferred Series D dividends, declared $1.88 per share	-	-	-	-	-	-	(34,500)	(34,500)	-	(
Common dividends declared, $1.50 per share	-	-	-	-	-	-	(1,420,856)	(1,420,856)	-	(
BALANCE, December 31, 2013	177,088	290,514	445,457	9,474	14,765,761	(2,748,933)	(534,306)	12,405,055	-	1
Net income (loss) attributable	-	-	-	-	-	-	(842,083)	(842,083)	-	(

to Annaly										
Net income (loss) attributable to noncontrolling interest	-	-	-	-	-	-	-	-	(196)	(
Unrealized gains (losses) on available-for-sale securities	-	-	-	-	-	3,048,291	-	3,048,291	-	3
Reclassification adjustment for net (gains) losses included in net income (loss)	-	-	-	-	-	(94,475)	-	(94,475)	-	(
Stock compensation expense	-	-	-	-	1,072	-	-	1,072	-	1
Net proceeds from direct purchase and dividend reinvestment	-	-	-	2	2,368	-	-	2,370	-	2
Contingent beneficial conversion feature on 4% Convertible Senior Notes	-	-	-	-	17,308	-	-	17,308	-	1
Contributions from noncontrolling interest	-	-	-	-	-	-	-	-	5,486	5
Preferred Series A dividends, declared $1.97 per share	-	-	-	-	-	-	(14,593)	(14,593)	-	(
Preferred Series C dividends, declared $1.91 per share	-	-	-	-	-	-	(22,875)	(22,875)	-	(
Preferred Series D dividends, declared $1.88 per share	-	-	-	-	-	-	(34,500)	(34,500)	-	(
Common dividends declared, $1.20 per share	-	-	-	-	-	-	(1,137,079)	(1,137,079)	-	(
BALANCE, December 31, 2014	177,088	290,514	445,457	9,476	14,786,509	204,883	(2,585,436)	13,328,491	5,290	1

See notes to consolidated financial statements.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
Item 15. Financial Statements

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	For The Years Ended December 31,		
	2014	2013	2012
Cash flows from operating activities:			
Net income (loss)	$ (842,279)	$ 3,729,698	$ 1,735,900
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Amortization of Investment Securities premiums and discounts, net	664,379	973,968	1,470,801
Amortization of commercial real estate investment premiums and discounts, net	616	(238)	-
Amortization of intangibles	1,390	2,614	4,080
Amortization of deferred financing costs	9,951	8,152	6,965
Amortization of net origination fees and costs, net	(4,917)	-	-
Amortization of contingent beneficial conversion feature and equity component of Convertible Senior Notes	37,341	17,101	18,017
Depreciation expense	3,205	-	-
Net gain on sale of commercial real estate	(2,748)	-	-
Net (gains) losses on sales of Agency mortgage-backed securities and debentures	(94,476)	(424,086)	(432,139)
Net loss on extinguishment of 4% Convertible Senior Notes	-	-	162,340
Stock compensation expense	1,072	2,547	5,584
Impairment of goodwill	-	23,987	-
Loss on previously held equity interest in CreXus	-	18,896	-
Non-cash component of disposal of subsidiary	-	-	(1,177)
Realized loss on disposal of subsidiary	-	21,041	-
Unrealized (gains) losses on interest rate swaps	948,755	(2,002,200)	32,219
Net unrealized (gains) losses on interest-only Agency mortgage-backed securities	86,172	(244,730)	59,937
Net (gains) losses on trading assets	245,495	(1,509)	(20,525)
Proceeds from repurchase agreements of RCap	881,680,774	1,453,216,892	733,739,097

Payments on repurchase agreements of RCap	(875,782,907)	(1,471,279,777)	(727,275,192)
Proceeds from reverse repurchase agreements	107,898,578	450,898,777	402,606,536
Payments on reverse repurchase agreements	(107,898,578)	(449,187,682)	(403,556,765)
Proceeds from securities borrowed	23,888,955	263,155,068	74,361,498
Payments on securities borrowed	(21,306,062)	(263,577,019)	(75,593,708)
Proceeds from securities loaned	41,939,298	484,836,546	185,657,591
Payments on securities loaned	(44,466,966)	(484,117,193)	(184,654,177)
Proceeds from U.S. Treasury securities	3,159,253	142,054,631	64,028,348
Payments on U.S. Treasury securities	(3,920,425)	(141,019,615)	(64,746,420)
Net payments on derivatives	(134,284)	(133,023)	(10,173)
Net change in:			
Due to / from brokers	8,596	503	-
Other assets	(2,657)	3,897	(9,243)
Accrued interest and dividends receivable	(21,376)	141,207	(6,151)
Receivable for investment advisory income	(3,563)	10,891	1,820
Receivable from prime broker	-	-	3,272
Accrued interest payable	34,889	(25,975)	47,931
Accounts payable and other liabilities	987	3,909	3,241
Net cash provided by (used in) operating activities	6,128,468	(12,892,722)	7,639,507
Cash flows from investing activities:			
Payments on purchases of Agency mortgage-backed securities and debentures	(38,626,689)	(39,071,377)	(86,161,777)
Proceeds from sales of Agency mortgage-backed securities and debentures	22,654,547	54,328,560	30,542,875
Principal payments on Agency mortgage-backed securities	8,312,784	21,748,131	35,133,544
Proceeds from Agency debentures called	-	2,147,205	1,801,283
Payments on purchases of corporate debt	(136,953)	(82,502)	(81,090)
Proceeds from corporate debt called	-	24,252	67,649
Principal payments on corporate debt	88,909	4,716	4,247
Acquisition of CreXus	-	(724,889)	-
Origination of commercial real estate investments, net	(246,833)	(984,743)	-
Proceeds from sales of commercial real estate held for sale	26,019	20,192	-
Principal payments on commercial real estate investments	316,082	114,999	-
Purchase of investments in real estate	(190,743)	-	-
Earn out payment	-	-	(13,387)
Proceeds from derivatives	-	7,465	10,379
Proceeds from sales of equity securities	-	-	4,048
Payment on disposal of subsidiary	-	16,209	(800)

Net cash provided by (used in) investing activities	(7,802,877)	37,548,218	(18,693,029)

Statement continued on following page.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
Item 15. Financial Statements

Cash flows from financing activities:			
Proceeds from repurchase agreements	195,370,377	381,641,327	352,497,651
Principal payments on repurchase agreements	(191,687,319)	(404,583,138)	(340,273,744)
Proceeds from issuance of securitized debt	260,700	-	-
Payment of deferred financing cost	(6,382)	-	-
Proceeds from exercise of stock options	-	2,204	8,438
Net proceeds from Series C Preferred offering	-	-	290,514
Net proceeds from Series D Preferred offering	-	-	445,457
Net proceeds from issuance of 5% Convertible Senior Notes offering	-	-	727,500
Net payment on extinguishment of 4% Convertible Senior Notes	-	-	(617,476)
Net proceeds from direct purchases and dividend reinvestments	2,370	2,855	2,794
Net (payments) proceeds from follow-on offerings	-	-	(248)
Proceeds from mortgages payable	127,325	-	-
Principal payments on participation sold	(309)	(200)	-
Principal payments on mortgages payable	(47)	-	-
Contributions from noncontrolling interests	5,486	-	-
Net payment on share repurchase	-	(141,149)	(255,901)
Dividends paid	(1,208,984)	(1,640,748)	(2,149,872)
Net cash provided by (used in) financing activities	2,863,217	(24,718,849)	10,675,113
Net (decrease) increase in cash and cash equivalents	1,188,808	(63,353)	(378,409)
Cash and cash equivalents, beginning of period	552,436	615,789	994,198
Cash and cash equivalents, end of period	$1,741,244	$552,436	$615,789
	-	-	-
Supplemental disclosure of cash flow information:			
Interest received	$3,307,238	$4,035,661	$4,718,524
Dividends received	$25,189	$21,624	$29,522
Investment advisory income received	$27,780	$54,534	$84,483
Interest paid (excluding interest paid on interest rate swaps)	$496,033	$656,648	$595,152
Net interest paid on interest rate swaps	$812,108	$885,234	$892,656
Taxes paid	$8,314	$10,447	$52,590
	$-	$-	$-
Noncash investing activities:			
Receivable for investments sold	$1,010,094	$1,193,730	$290,722
Payable for investments purchased	$264,984	$764,131	$8,256,957
Net change in unrealized gains (losses) on available-for-sale securities, net of reclassification adjustment	$2,953,816	$(5,802,175)	$44,254
	$-	$-	$-
Noncash financing activities:			
Dividends declared, not yet paid	$284,293	$284,230	$432,154
Conversion of Series B cumulative preferred stock	$-	$-	$32,272
Contingent beneficial conversion feature on 4% Convertible Senior Notes	$17,308	$17,383	$61,725

Equity component of 5% Convertible Senior Notes	$-	$-	$11,717

See notes to consolidated financial statements.

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ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
Item 15. Financial Statements

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 and 2012

1. DESCRIPTION OF BUSINESS

Annaly Capital Management, Inc. (the “Company” or “Annaly”) is a Maryland corporation that commenced operations on February 18, 1997. The Company owns a portfolio of real estate related investments, including mortgage pass-through certificates, collateralized mortgage obligations, agency callable debentures, other securities representing interests in or obligations backed by pools of mortgage loans, commercial real estate assets and corporate loans. The Company’s principal business objective is to generate net income for distribution to its stockholders from its investments. The Company is externally managed by Annaly Management Company LLC (the “Manager”).

The Company’s business operations are primarily comprised of the following:

– Annaly, the parent company, which invests primarily in various types of Agency mortgage-backed securities and related derivatives to hedge these investments.

– Annaly Commercial Real Estate Group, Inc. (“ACREG,” formerly known as CreXus Investment Corp. (“CreXus”)), a wholly-owned subsidiary that was acquired during the second quarter of 2013 which specializes in acquiring, financing and managing commercial real estate loans and other commercial real estate debt, commercial mortgage-backed securities and other commercial real estate-related assets.

– RCap Securities, Inc. (“RCap”), a wholly-owned subsidiary which operates as a broker-dealer, and is a member of the Financial Industry Regulatory Authority (“FINRA”).

– Fixed Income Discount Advisory Company (“FIDAC”), a wholly-owned subsidiary which manages an affiliated

The Company has elected to be taxed as a REIT as defined under the Internal Revenue Code of 1986, as amended, and regulations promulgated thereunder (the “Code”).

2. BASIS OF PRESENTATION

The accompanying consolidated financial statements and related notes of the Company have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP").

3. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation – The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

The Company has evaluated all of its investments in legal entities in order to determine if they are variable interests in Variable Interest Entities ("VIEs"). A VIE is defined as an entity in which equity investors (i) do not have the characteristics of a controlling financial interest, and/or (ii) do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. A variable interest is an investment or other interest that will absorb portions of a VIE's expected losses or receive portions of the entity’s expected residual returns. A VIE is required to be consolidated by its primary beneficiary, which is defined as the party that (i) has the power to control the activities that most significantly impact the VIE’s economic performance and (ii) has the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

real estate investment trust ("REIT") for which it earns fee income.

– Annaly Middle Market Lending LLC ("MML") (formerly known as Charlesfort Capital Management LLC), a wholly-owned subsidiary which engages in corporate middle market lending transactions.

– Shannon Funding LLC ("Shannon"), a wholly-owned subsidiary which acquires residential mortgage loans and provides warehouse financing to residential mortgage originators in the United States.

To assess whether the Company has the power to direct the activities of a VIE that most significantly impact the VIE's economic performance, the Company considers all facts and circumstances, including the Company's role in establishing the VIE and the Company's ongoing rights and responsibilities. This assessment includes first, identifying the activities that most significantly impact the VIE's economic performance; and second, identifying which party, if any, has power over those activities. In general, the parties that make the most significant decisions affecting the VIE or have the right to unilaterally remove those decision makers are deemed to have the power to direct the activities of a VIE.

To assess whether the Company has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE, the Company considers all of its economic interests, including debt and equity investments and other arrangements deemed to be variable interests in the VIE. This assessment requires that the Company applies judgment in determining whether these interests, in the aggregate, are considered potentially significant to the VIE. Factors considered in assessing significance include: the design of the VIE, including its capitalization structure; subordination of interests; payment priority; relative share of interests held across various classes within the VIE's capital structure; and the reasons why the interests are held by the Company.

The Company performs ongoing reassessments of whether changes in the facts and circumstances regarding the Company's involvement with a VIE causes the Company's consolidation conclusion regarding the VIE to change.

Cash and Cash Equivalents – Cash and cash equivalents include cash on hand and cash held in money market funds on an overnight basis. RCap is a member of various clearing organizations with which it maintains cash required to conduct its day-to-day clearance activities. Cash and securities deposited with clearing organizations are carried at cost, which approximates fair value. The Company also maintains collateral in the form of cash on margin with counterparties to its interest rate swaps and other derivatives. Cash and securities deposited with clearing organizations and collateral held in the form of cash on margin with counterparties to its interest rate swaps and other derivatives totaled approximately $1.6 billion and $371.8 million at December 31, 2014 and December 31, 2013, respectively.

Fair Value Measurements – The Company reports various financial instruments at fair value. A complete discussion of the methodology utilized by the Company to estimate the fair value of certain financial instruments is included in these Notes to Consolidated Financial

Agency Mortgage-Backed Securities and Agency Debentures – The Company invests primarily in mortgage pass-through certificates, collateralized mortgage obligations and other mortgage-backed securities representing interests in or obligations backed by pools of mortgage loans and certificates guaranteed by the Government National Mortgage Association ("Ginnie Mae"), the Federal Home Loan Mortgage Corporation ("Freddie Mac") or the Federal National Mortgage Association ("Fannie Mae") (collectively, "Agency mortgage-backed securities"). These Agency mortgage-backed securities may include forward contracts for Agency mortgage-backed securities purchases or sales of a generic pool, on a to-be-announced basis ("TBA securities"). The Company also invests in Agency debentures issued by the Federal Home Loan Banks, Freddie Mac and Fannie Mae.

Agency mortgage-backed securities and Agency debentures are referred to herein as "Investment Securities." Although the Company generally intends to hold most of its Investment Securities until maturity, it may, from time to time, sell any of its Investment Securities as part of its overall management of its portfolio. Investment Securities are classified as available-for-sale and are reported at fair values estimated by management that are compared to independent sources for reasonableness, with unrealized gains and losses reported as a component of other comprehensive income (loss). Investment Securities transactions are recorded on trade date, including TBA securities that meet the regular-way securities scope exception from derivative accounting. Realized gains and losses on sales of Investment Securities are determined using the average cost method.

The Company elected the fair value option for Agency interest-only mortgage-backed securities. Interest-only securities and inverse interest-only securities are collectively referred to as "interest-only securities." These Agency interest-only mortgage-backed securities represent the Company's right to receive a specified proportion of the contractual interest flows of specific Agency mortgage-backed securities. Agency interest-only mortgage-backed securities are measured at

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Revenue Recognition – The revenue recognition policy by asset class is discussed below.

fair value with changes in fair value recorded as Net unrealized gains (losses) on interest-only Agency mortgage-backed securities in the Company's Consolidated Statements of Comprehensive Income (Loss). The interest-only securities are included in Agency mortgage-backed securities at fair value on the accompanying Consolidated Statements of Financial Condition.

Interest income from coupon payments is accrued based on the outstanding principal amounts of the Investment Securities and their contractual terms. Premiums and discounts associated with the purchase of the Investment Securities are amortized or accreted into interest income over the projected lives of the securities using the interest method. The Company uses a third-party supplied model to project prepayment speeds. The Company's prepayment speed projections incorporate underlying loan characteristics (e.g., coupon, term, original loan size, original loan to value, etc.) and market data, including interest rate and home price index forecasts. Adjustments are made for actual prepayment activity.

Corporate Debt – The Company's investments in corporate debt are designated as held for investment, and are carried at their principal balance outstanding plus any premiums or discounts less allowances for loan losses. No allowance for loan losses was deemed necessary as of December 31, 2014 and December 31, 2013.

Equity Securities – The Company may invest in equity securities that are classified as available-for-sale or trading. Equity securities classified as available-for-sale are reported at fair value, based on market quotes, with unrealized gains and losses reported as a component of other comprehensive income (loss). Equity securities classified as trading are reported at fair value, based on market quotes, with unrealized gains and losses reported in the Consolidated Statements of Comprehensive Income (Loss) as Net gains (losses) on trading assets. Dividends are recorded in earnings based on the declaration date.

Derivative Instruments – The Company may use a variety of derivative instruments to economically hedge some of its exposure to market risks, including interest rate and prepayment risk. These instruments include, but are not limited to, interest rate swaps, options to enter into interest rate swaps ("swaptions"), TBA securities with the intent to net settle ("TBA derivatives"), options on TBA securities ("MBS options") and U.S. Treasury and Eurodollar futures contracts. The Company may also

Some derivative agreements contain provisions that allow for netting or setting off by counterparty; however, the Company elected to present related assets and liabilities on a gross basis in the Consolidated Statements of Financial Condition.

Interest rate swap agreements - Interest rate swaps are the primary instrument used to mitigate interest rate risk. In particular, 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. Swap agreements may or may not be cleared through a derivatives clearing organization ("DCO"). Uncleared swaps are fair valued using internal pricing models and compared to the counterparty market values. Centrally cleared swaps are fair valued using internal pricing models and compared to the DCO's market values.

Interest rate swaptions - Interest rate swaptions are purchased/sold to mitigate the potential impact of increases or decreases in interest rates. Interest rate swaptions provide the option to enter into an interest rate swap agreement for a predetermined notional amount, stated term and pay and receive interest rates in the future. They are not centrally cleared. The premium paid/received for interest rate swaptions is reported as an asset/liability in the Consolidated Statement of Financial Condition. The difference between the premium and the fair value of the swaption is reported in Net gains (losses) on trading assets in the Consolidated Statements of Comprehensive Income (Loss). If a swaption expires unexercised, the realized gain (loss) on the swaption would be equal to the premium received/paid. If the Company sells or exercises a swaption, the realized gain or loss on the swaption would be equal to the difference between the cash received or the fair value of the underlying interest rate swap received and the premium paid.

The fair value of interest rate swaptions is estimated using internal pricing models and compared to the counterparty market value.

invest in other types of mortgage derivatives such as interest-only securities and synthetic total return swaps, such as the Markit IOS Synthetic Total Return Swap Index. Derivatives are accounted for in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 815, Derivatives and Hedging, which requires recognition of all derivatives as either assets or liabilities at fair value in the Consolidated Statements of Financial Condition with changes in fair value recognized in the Consolidated Statements of Comprehensive Income (Loss). None of the Company's derivative transactions have been designated as hedging instruments for accounting purposes.

TBA Dollar Rolls - TBA dollar roll transactions are accounted for as a series of derivative transactions. The fair value of TBA derivatives is based on similar methods used to value Agency mortgage-backed securities with gains and losses recorded in Net gains (losses) on trading assets in the Consolidated Statements of Comprehensive Income (Loss).

MBS Options – MBS options are generally options on TBA contracts, which help manage mortgage market risks and volatility while providing the potential to enhance returns. MBS options are over-the-counter traded instruments and those written on current-coupon mortgage-backed securities are typically the most liquid. MBS options are fair valued using internal pricing models and compared to the counterparty market value at the valuation date with gains and losses recorded in Net gains (losses) on trading assets in the Consolidated Statements of Comprehensive Income (Loss).

Futures Contracts - Futures contracts are derivatives that track the prices of specific assets. Short sales of futures contracts help mitigate the potential impact of changes in interest rates on the portfolio performance. The Company maintains margin accounts which are settled daily with Futures Commission Merchants ("FCMs"). The margin requirement varies based on the market value of the open positions and the equity retained in the account. Futures contracts are fair valued based on exchange pricing with gains and losses recorded in Net gains (losses) on trading assets in the Consolidated Statements of Comprehensive Income (Loss).

Other-Than-Temporary Impairment – Management evaluates available-for-sale securities for other-than-temporary impairment at least quarterly, and more frequently when economic or market conditions warrant such evaluation. When the fair value of an available-for-sale security is less than its amortized cost the security is considered impaired. For securities that are impaired, the Company determines if it (1) has the intent to sell the security, (2) is more likely than not that it will be required to sell the security before recovery of its amortized cost basis, or (3) does not expect to recover the entire amortized cost basis of the security. Further, the security is analyzed for credit loss (the difference between the present value of cash flows expected to be collected and the amortized cost basis). The credit loss, if any, will then be recognized in the Consolidated Statements of Comprehensive Income (Loss), while the balance of losses related to other factors will be recognized as a component of other comprehensive

Repurchase Agreements – The Company finances the acquisition of a significant portion of its Agency mortgage-backed securities with repurchase agreements. The Company examines each of the specified criteria in ASC 860, Transfers and Servicing, at the inception of each transaction and has determined that each of the financings meet the specified criteria in this guidance. None of the Company's repurchase agreements are accounted for as components of linked transactions. As a result, the Company separately accounts for the financial assets and related repurchase financings in the accompanying consolidated financial statements.

Reverse repurchase agreements and repurchase agreements with the same counterparty and the same maturity are presented net in the Consolidated Statements of Financial Condition when the terms of the agreements meet the criteria to permit netting. The Company reports cash flows on repurchase agreements as financing activities in the Consolidated Statements of Cash Flows. The Company reports cash flows on reverse repurchase and repurchase agreements entered into by RCap and Shannon as operating activities in the Consolidated Statements of Cash Flows.

Goodwill and Intangible Assets – The Company's acquisitions of FIDAC, Merganser Capital Management, Inc. ("Merganser") and CreXus were accounted for using the acquisition method. In October 2013, the Company sold the operations of Merganser. Under the acquisition method, net assets and results of operations of acquired companies are included in the consolidated financial statements from the date of acquisition. The purchase prices of FIDAC, Merganser and CreXus were allocated to the assets acquired, including identifiable intangible assets, and the liabilities assumed based on their estimated fair values at the date of acquisition. The excess of purchase price over the fair value of the net assets acquired was recognized as goodwill.

The Company tests goodwill for impairment on an annual basis and at interim periods when events or circumstances may make it more likely than not that an impairment has occurred. If a qualitative analysis indicates that there may be an impairment, a quantitative

income (loss). There was no other-than-temporary impairment recognized for the years ended December 31, 2014, 2013 and 2012.

Loan Loss Reserves – To determine if loan loss allowances are required on investments in corporate debt, the Company reviews the monthly and/or quarterly financial statements of the borrowers to verify they meet the covenants of the loan documents. If based on the financial review it is deemed probable that the Company will be unable to collect contractual principal and interest amounts (e.g. financial performance and delinquencies), a loan loss provision would be recorded. No allowance for loan losses was deemed necessary as of December 31, 2014 and 2013.

analysis is performed. The quantitative impairment test for goodwill utilizes a two-step approach, whereby the Company compares the carrying value of each identified reporting unit to its fair value. If the carrying value of the reporting unit is greater than its fair value, the second step is performed, where the implied fair value of goodwill is compared to its carrying value. The Company recognizes an impairment charge for the amount by which the carrying amount of goodwill exceeds its fair value.

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Intangible assets with an estimated useful life are amortized over their expected useful lives.

Convertible Senior Notes – The Company records the 4% Convertible Senior Notes and 5% Convertible Senior Notes (collectively, the "Convertible Senior Notes") at their contractual amounts, adjusted by the effects of a beneficial conversion feature and a contingent beneficial conversion feature (collectively, the "Conversion Features"). The Conversion Features' intrinsic value is included in "Additional paid-in capital" on the Company's Consolidated Statements of Financial Condition and reduces the recorded liability amount associated with the Convertible Senior Notes. A Conversion Feature may be recognized as a result of adjustments to the conversion price for dividends declared to common stockholders.

Stock Based Compensation – The Company is required to measure and recognize in the consolidated financial statements the compensation cost relating to share-based payment transactions. The Company recognizes compensation expense on a straight-line basis over the requisite service period for the entire award.

Income Taxes – The Company has elected to be taxed as a REIT and intends to comply with the provisions of the Code, with respect thereto. Accordingly, the Company will not be subject to federal income tax to the extent of its distributions to stockholders and as long as certain asset, income and stock ownership tests are met. The Company and certain of its direct and indirect subsidiaries, including FIDAC, RCap and certain subsidiaries of ACREG, have made separate joint elections to treat these subsidiaries as taxable REIT subsidiaries ("TRSs"). As such, each of these TRSs is taxable as a domestic C corporation and subject to federal, state and local income taxes based upon their taxable income.

The provisions of ASC 740, Income Taxes, ("ASC 740") clarify the accounting for uncertainty in income taxes recognized in financial statements and prescribe a recognition threshold and measurement attribute for uncertain tax positions taken or expected to be taken on a tax return. ASC 740 also requires that interest and

Use of Estimates – The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Commercial Real Estate Investments

Commercial Real Estate Loans – The Company's commercial real estate loans are comprised of fixed-rate and adjustable-rate loans. Commercial real estate loans are designated as held for investment and are carried at their outstanding principal balance, net of unamortized origination fees and costs, premiums or discounts, less a reserve for estimated losses if necessary. The difference between the principal amount of a loan and proceeds at acquisition is recorded as either a discount or premium. Origination fees and costs, premiums and discounts are amortized or accreted into interest income over the estimated life of the loan.

Preferred Equity Interests Held for Investment – Preferred equity interests are designated as held for investment and are carried at their outstanding principal balance, net of unamortized origination fees and costs, premiums or discounts, less a reserve for estimated losses if necessary. Origination fees and costs, premiums and discounts are amortized or accreted into interest income over the estimated life of the investment.

Allowance for Losses – The Company evaluates the need for a loss reserve on its commercial real estate loans and preferred equity interests held for investment (collectively referred to as "CRE Debt and Preferred Equity Investments"). A provision for losses related to CRE Debt and Preferred Equity Investments, including those accounted for under ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality, may be established when it is probable the Company will not collect amounts contractually due or all amounts previously estimated to be collectable. Management

penalties related to unrecognized tax benefits be recognized in the financial statements. The Company does not have any unrecognized tax benefits that would affect its financial position. Thus, no accruals for penalties and interest were necessary as of December 31, 2014 and 2013.

assesses the credit quality of the portfolio and adequacy of loan loss reserves on a quarterly basis, or more frequently as necessary. Significant judgment is required in this analysis. Depending on the expected recovery of its investment, the Company considers the estimated net recoverable value of the CRE Debt and Preferred Equity Investments as well as other factors, including but not limited to the fair value of any collateral, the amount and the status of any senior debt, the prospects for the borrower and the competitive landscape where the borrower conducts business. Because this determination is based upon projections of future economic events, which are inherently subjective, the amounts ultimately realized may differ materially from the carrying value as of the reporting date.

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The Company may be exposed to various levels of credit risk depending on the nature of its investments and the nature of the assets underlying the investments and credit enhancements, if any, supporting its assets. The Company's core investment process includes procedures related to the initial approval and periodic monitoring of credit risk and other risks associated with each investment. The Company's investment underwriting procedures include evaluation of the underlying borrowers' ability to manage and operate their respective properties. Management reviews loan-to-value metrics upon either the origination or the acquisition of a new investment but generally does not update the loan-to-value metrics in the course of quarterly surveillance. Management generally reviews the most recent financial information produced by the borrower, which may include, but is not limited to, net operating income ("NOI"), debt service coverage ratios, property debt yields (net cash flow or NOI divided by the amount of outstanding indebtedness), loan per unit and rent rolls relating to each of the Company's CRE Debt and Preferred Equity Investments, and may consider other factors management deems important. Management also reviews market pricing to determine each borrower's ability to refinance their respective assets at the maturity of each loan. Management also reviews economic trends, both macro as well as those directly affecting the property, and the supply and demand of competing projects in the sub-market in which each subject property is located.

In connection with the quarterly surveillance review process, loans are assigned an internal rating of "Performing", "Watch List", "Defaulted-Recovery" or "Impaired". Loans that are deemed to be Performing meet all present contractual obligations and do not qualify for Watch List designation. Watch List loans are defined as Performing loans that are significantly lagging expectations and default is considered imminent. Defaulted–Recovery loans are currently in default; however full recovery of contractual principal and interest is expected. Impaired loans may or may not be in default, impairment is anticipated, and a loan loss provision has been recognized to reflect expected losses.

Investments in Commercial Real Estate – Investments in commercial real estate are carried at historical cost less accumulated depreciation. Historical cost includes all costs necessary to bring the asset to the condition and location necessary for its intended use, including financing during the construction period. Costs directly related to acquisitions deemed to be business combinations are expensed. Ordinary repairs and maintenance which are not reimbursed by tenants are expensed as incurred. Major replacements and improvements that extend the useful life of the asset are capitalized and depreciated over their useful life.

Investments in commercial real estate are depreciated using the straight-line method over the estimated useful lives of the assets, summarized as follows:

Category	Term
Building	30-40 years
Site improvements	2-10 years

The Company follows the acquisition method of accounting for acquisitions of operating real estate held for investment, where the purchase price of operating real estate is allocated to tangible assets such as land, building, site improvements and other identified intangibles such as above/below market and in-place leases.

The Company evaluates whether real estate acquired in connection with a foreclosure ("REO") or UCC/deed in lieu of foreclosure (herein collectively referred to as a foreclosure) constitutes a business and whether business combination accounting is applicable. Upon foreclosure of a property, the excess of the carrying value of a loan, if any, over the estimated fair value of the property, less estimated costs to sell, is charged to provision for loan losses.

Investments in commercial real estate, including REO, which do not meet the criteria to be classified as held for sale, are separately presented in the Consolidated Statements of Financial Condition as held for investment. Real estate held for sale is reported at the lower of its carrying value or its estimated fair value less

estimated costs to sell. Once a property is determined to be held for sale, depreciation is no longer recorded. In addition, if considered material to the overall consolidated financial statements, the results of operations are reclassified to income (loss) from discontinued operations in the Consolidated Statements of Comprehensive Income (Loss).

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The Company's real estate portfolio (REO and real estate held for investment) is reviewed on a quarterly basis, or more frequently as necessary, to assess whether there are any indicators that the value of its operating real estate may be impaired or that its carrying value may not be recoverable. A property's value is considered impaired if the Company's estimate of the aggregate future undiscounted cash flows to be generated by the property is less than the carrying value of the property. In conducting this review, the Company considers U.S. macroeconomic factors, including real estate sector conditions, together with asset specific and other factors. To the extent impairment has occurred and is considered to be other than temporary, the loss will be measured as the excess of the carrying amount of the property over the calculated fair value of the property.

Revenue Recognition – Commercial Real Estate Investments - Interest income is accrued based on the outstanding principal amount of the CRE Debt and Preferred Equity Investments and their contractual terms. Premiums and discounts associated with the purchase of CRE Debt and Preferred Equity Investments are amortized or accreted into interest income over the projected lives of the CRE Debt and Preferred Equity Investments using the interest method.

Broker Dealer Activities

In January 2014, RCap ceased its trading activity in U.S. Treasury securities, derivatives and securities borrowed and loaned transactions.

Reverse Repurchase Agreements – RCap enters into reverse repurchase agreements as part of its matched book trading activity. Reverse repurchase agreements are recorded on trade date at the contract amount and are collateralized by mortgage-backed or other securities. Margin calls are made by RCap as necessary based on the daily valuation of the underlying collateral as compared to the contract price. RCap generates income from the spread between what is earned on the reverse repurchase agreements and what is paid on the matched repurchase agreements. RCap’s policy is to obtain

Securities Borrowed and Loaned Transactions – RCap recorded securities borrowed and loaned transactions as collateralized financings. Securities borrowed transactions required RCap to provide the counterparty with collateral in the form of cash, or other securities. RCap received collateral in the form of cash or other securities for securities loaned transactions. RCap monitored the fair value of the securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as necessary. Securities borrowed and securities loaned transactions were recorded at contract value. For these transactions, the rebates accrued by RCap were recorded as interest income or expense.

U.S. Treasury Securities – RCap traded in U.S. Treasury securities for its proprietary portfolio, which consisted of long and short positions on U.S Treasury notes and bonds. U.S. Treasury securities were classified as trading investments and were recorded on the trade date at cost. Changes in fair value were reflected in Net gains (losses) on trading assets in the Company’s Consolidated Statement of Comprehensive Income (Loss). Interest income or expense on U.S. Treasury notes and bonds was accrued based on the outstanding principal amount of those investments and their stated terms.

Derivatives - RCap entered primarily into U.S. Treasury, Eurodollar, federal funds, German government and U.S. equity index and currency futures and options contracts. RCap maintained a margin account which was settled daily with FCMs. Changes in the unrealized gains or losses on the futures and options contracts as well as any foreign exchange gains and losses were reflected in Net gains (losses) on trading assets in the Company’s Consolidated Statements of Comprehensive Income (Loss). Unrealized gains (losses) were excluded from net income (loss) in arriving at cash flows from operating activities in the Consolidated Statements of Cash Flows.

Recent Accounting Pronouncements

The following table provides a brief description of recent accounting pronouncements that could potentially

possession of collateral with a market value in excess of the principal amount loaned under reverse repurchase agreements. To ensure that the market value of the underlying collateral remains sufficient, collateral is valued daily, and RCap will require counterparties to deposit additional collateral, when necessary. All reverse repurchase activities are transacted under master repurchase agreements that give RCap the right, in the event of default, to liquidate collateral held and in some instances, to offset receivables and payables with the same counterparty.

have a material effect on the Company's consolidated financial statements:

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Standard	Description	Date of Adoption	Effect on the financial statements or other significant matters
Standards that are not yet adopted			
ASU 2015-02 Consolidation (Topic 810) Amendments to the Consolidation Analysis	This update affects the following areas of the consolidation analysis: limited partnerships and similar entities, evaluation of fees paid to a decision maker or service provider as a variable interest and in determination of the primary beneficiary, effect of related parties on the primary beneficiary determination and for certain investment funds.	January 1, 2016 (early adoption permitted)	Not expected to have a significant impact on the consolidated financial statements
ASU 2015-01 Income Statement - Extraordinary and Unusual Items (Subtopic 225-20)	This update eliminates from GAAP the concept of extraordinary items.	January 1, 2016 (early adoption permitted)	Not expected to have an impact on the consolidated financial statements.
ASU 2014-16 Derivatives and Hedging (Topic 815) Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share is More Akin to Debt or Equity	This ASU provides additional guidance for evaluating whether conversion rights, redemption rights, voting rights, liquidation rights and dividend payment preferences and other features embedded in a share, including preferred stock, contain embedded derivatives requiring bifurcation. The update requires that an entity determine the nature of the host contract by considering all stated and implied terms and features in a hybrid instrument.	January 1, 2016 (early adoption permitted)	Not expected to have an impact on the consolidated financial statements.
ASU 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-04) Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern	This ASU requires management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern within one year after the date the financial	January 1, 2017 (early adoption permitted)	Not expected to have an impact on the consolidated financial statements.

	statements are issued.		
ASU 2014-13, Consolidation (Topic 810) Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity.	This Update provides a practical expedient to measure the fair value of the financial assets and financial liabilities of a consolidated collateralized financing entity, which the reporting entity has elected to or is required to measure on a fair value basis.	January 1, 2015 (early adoption permitted)	Not expected to have an impact on the consolidated financial statements.
ASU 2014-11, Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosure.	This update makes limited amendments to the guidance in ASC 860 on accounting for certain repurchase agreements.	January 1, 2015, except for the disclosure requirements for transactions accounted for as secured borrowings, which are required to be presented for interim periods beginning after March 15, 2015	Will impact disclosures only and will not have a significant impact on the consolidated financial statements.
ASU 2014-09, Revenue from Contracts with Customers	This guidance applies to contracts with customers to transfer goods or services and contracts to transfer nonfinancial assets unless those contracts are within the scope of other standards (for example, lease transactions).	January 1, 2017	Not expected to have a significant impact on the consolidated financial statements.
ASU 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360) Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity	This ASU raises the threshold for a disposal to be treated as discontinued operations.	January 1, 2015 (early adoption permitted)	Not expected to have a significant impact on the consolidated financial statements.
ASU 2014-04 Receivables–Troubled Debt Restructurings by Creditors, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure	This Update clarifies that an in substance repossession or foreclosure has occurred, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, when the creditor obtains legal title to the property upon completion of a foreclosure or the borrower conveys all interest in	January 1, 2015	Not expected to have a significant impact on the consolidated financial statements.

	the property to the creditor through a deed in lieu of foreclosure or similar arrangement		
Standards that were adopted			
ASU 2014-17 Business Combinations (Topic 805): Pushdown Accounting	This amendment provides an acquired entity with the option to apply push down accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity.	November 18, 2014	Did not have a significant impact on the consolidated financial statements.
ASU 2013-02, Comprehensive Income: Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income	This update requires the provision of information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, it requires presentation of significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period	January 1, 2014	Did not have a significant impact on the consolidated financial statements.
ASU 2011-11, Balance Sheet: Disclosures about Offsetting Assets and Liabilities	Under this update, the Company is required to disclose both gross and net information about both instruments and transactions eligible for offset in the Company's Consolidated Statements of Financial Condition and transactions subject to an agreement similar to a master netting arrangement. The scope includes derivatives, sale and repurchase agreements and reverse sale and repurchase agreements and securities borrowing and securities lending arrangements.	January 1, 2014	Did not have a significant impact on the consolidated financial statements.

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4. AGENCY MORTGAGE-BACKED SECURITIES

The following tables present the Company's available-for-sale Agency mortgage-backed securities portfolio as of December 31, 2014 and 2013 which were carried at their fair value:

December 31, 2014	Freddie Mac	Fannie Mae	Ginnie Mae	Total
		(dollars in thousands)		
Principal outstanding	$ 27,906,221	$ 47,979,778	$ 97,000	$ 75,982,999
Unamortized premium	1,951,798	3,396,368	20,560	5,368,726
Unamortized discount	(8,985)	(8,857)	(358)	(18,200)
Amortized cost	29,849,034	51,367,289	117,202	81,333,525
Gross unrealized gains	313,761	660,230	8,010	982,001
Gross unrealized losses	(322,094)	(424,800)	(3,376)	(750,270)
Estimated fair value	$ 29,840,701	$ 51,602,719	$ 121,836	$ 81,565,256

	Fixed Rate	Adjustable Rate	Total
		(dollars in thousands)	
Amortized cost	$ 78,250,313	$ 3,083,212	$ 81,333,525
Gross unrealized gains	847,615	134,386	982,001
Gross unrealized losses	(732,533)	(17,737)	(750,270)
Estimated fair value	$ 78,365,395	$ 3,199,861	$ 81,565,256

December 31, 2013	Freddie Mac	Fannie Mae	Ginnie Mae	Total
		(dollars in thousands)		
Principal outstanding	$ 24,458,925	$ 43,564,657	$ 120,739	$ 68,144,321
Unamortized premium	1,627,966	2,970,813	27,085	4,625,864
Unamortized discount	(9,533)	(11,568)	(383)	(21,484)
Amortized cost	26,077,358	46,523,902	147,441	72,748,701
Gross unrealized gains	227,423	456,057	9,845	693,325
Gross unrealized losses	(1,267,106)	(1,781,683)	(4,288)	(3,053,077)
Estimated fair value	$ 25,037,675	$ 45,198,276	$ 152,998	$ 70,388,949

	Fixed Rate	Adjustable Rate	Total
		(dollars in thousands)	
Amortized cost	$ 68,784,424	$ 3,964,277	$ 72,748,701
Gross unrealized gains	538,556	154,769	693,325
Gross unrealized losses	(3,040,153)	(12,924)	(3,053,077)
Estimated fair value	$ 66,282,827	$ 4,106,122	$ 70,388,949

Actual maturities of Agency mortgage-backed securities are generally shorter than stated contractual maturities because actual maturities of Agency mortgage-backed securities are affected by periodic payments and prepayments of principal on the underlying mortgages. The following table summarizes the Company's Agency mortgage-backed securities as of December 31, 2014 and 2013, according to their estimated weighted average life classifications:

	December 31, 2014		December 31, 2013	
Weighted Average Life	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost
Less than one year	$ 43,248	$ 42,831	$ 65,584	$ 64,561
Greater than one year through five years	42,222,114	41,908,586	50,046,013	51,710,059
Greater than five years through ten years	39,018,833	39,098,352	14,915,716	15,292,973
Greater than ten years	281,061	283,756	5,361,636	5,681,108
Total	$ 81,565,256	$ 81,333,525	$ 70,388,949	$ 72,748,701

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The weighted average lives of the Agency mortgage-backed securities at December 31, 2014 and 2013 in the table above are based upon projected principal prepayment rates. The actual weighted average lives of the Agency mortgage-backed securities could be longer or shorter than projected.

The following table presents the gross unrealized losses and estimated fair value of the Company's Agency mortgage-backed securities by length of time that such securities have been in a continuous unrealized loss position at December 31, 2014 and 2013.

	December 31, 2014			December 31, 2013		
	Estimated Fair Value	Gross Unrealized Losses	Number of Securities	Estimated Fair Value	Gross Unrealized Losses	Number of Securities
	(dollars in thousands)					
Less than 12 Months	$ 4,613,599	$ (36,959)	205	$ 47,677,197	$ (2,569,474)	583
12 Months or More	35,175,194	(713,311)	302	6,102,283	(483,603)	55
Total	$ 39,788,793	$ (750,270)	507	$ 53,779,480	$ (3,053,077)	638

The decline in value of these securities is solely due to market conditions and not the quality of the assets. Substantially all of the Agency mortgage-backed securities are "AAA" rated or carry an implied "AAA" rating. The investments are not considered to be other-than-temporarily impaired because the Company currently has the ability and intent to hold the investments to maturity or for a period of time sufficient for a forecasted market price recovery up to or beyond the cost of the investments, and it is not more likely than not that the Company will be required to sell the investments before recovery of the amortized cost bases, which may be maturity. Also, the Company is guaranteed payment of the principal amount of the securities by the respective issuing government agency.

During the year ended December 31, 2014, the Company disposed of $20.6 billion of Agency mortgage-backed securities, resulting in a realized gain of $179.7 million. During the year ended December 31, 2013, the Company disposed of $54.5 billion of Agency mortgage-backed securities, resulting in a realized gain of $440.2 million. During the year ended December 31, 2012, the Company sold $30.4 billion of Agency mortgage-backed securities, resulting in a realized gain of $438.5 million. Average cost is used as the basis on which the realized gain or loss on sale is determined.

securities. Agency interest-only mortgage-backed securities in the Company's portfolio as of December 31, 2014 and 2013 had net unrealized gains (losses) of ($8.0) million and $78.1 million and an amortized cost of $1.2 billion and $1.0 billion, respectively.

5. ACQUISITION OF CREXUS

On April 17, 2013, the Company, through its wholly-owned subsidiary CXS Acquisition Corporation obtained control of CreXus pursuant to the merger agreement dated January 30, 2013. CreXus owned a portfolio of commercial real estate assets which are now owned by the Company. Following the acquisition, CXS Acquisition Corporation was renamed Annaly Commercial Real Estate Group, Inc.

The business combination was accounted for under the acquisition method of accounting in accordance with ASC 805, Business Combinations, ("ASC 805"). Accordingly, goodwill was measured as the excess of the aggregate of the acquisition-date fair value of the consideration transferred and the acquisition-date fair value of the Company's previously held equity interest in CreXus over the fair value, at acquisition date, of the identifiable assets acquired net of assumed liabilities. The following table summarizes the aggregate

Agency interest-only mortgage-backed securities represent the right to receive a specified portion of the contractual interest flows of the underlying outstanding principal balance of specific Agency mortgage-backed

consideration and preliminary fair value of the assets acquired and liabilities assumed recognized at the acquisition date:

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	April 17, 2013 (dollars in thousands)
Cash consideration transferred	$ 876,267
Fair value of equity interest in CreXus held before the business combination	106,521
	$ 982,788

Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	$ 151,843
Commercial real estate investments	796,950
Accrued interest receivable	3,485
Other assets	5,617
Mortgages payable	(19,376)
Participation sold	(14,352)
Accounts payable and accrued expenses	(12,729)
Total identifiable net assets	911,438
Goodwill	71,350
	$ 982,788

The Company recorded $71.4 million of goodwill during the second quarter of 2013 associated with the acquisition of CreXus in the Consolidated Statements of Financial Condition. The Company recognized additional goodwill of $0.4 million during the second half of 2013. In management's opinion, the goodwill represents the synergies that resulted from integrating CreXus' commercial real estate platform into the Company, which the Company believes is complementary to its existing business and return profile.

The acquisition-date fair value of the previously held equity interest in CreXus excluded the estimated fair value of the control premium that resulted from the merger transaction. The Company recognized a loss of $18.9 million during the second quarter of 2013 as a result of remeasuring the fair value of its equity interest in CreXus held before the business combination.

Under ASC 805, merger-related transaction costs (such as advisory, legal, valuation and other professional fees) are not included as components of consideration transferred but are expensed in the periods in which the costs are incurred. Transaction costs of $7.3 million were incurred during 2013 and were included in other general and administrative expenses in the Consolidated Statements of Comprehensive Income (Loss).

6. COMMERCIAL REAL ESTATE INVESTMENTS

At December 31, 2014 and 2013, commercial real estate investments were composed of the following:

CRE Debt and Preferred Equity Investments

	December 31, 2014			December 31, 2013		
	Outstanding	Carrying	Percentage	Outstanding	Carrying	Percentage

	Principal	Value(1)	of Loan Portfolio(2)	Principal	Value(1)	of Loan Portfolio(2)
			(dollars in thousands)			
Senior mortgages	$ 384,304	$ 383,895	25.2 %	$ 669,512	$ 667,299	42.2 %
Senior securitized mortgages(3)	399,541	398,634	26.3 %	-	-	0.0 %
Subordinate notes	-	-	0.0 %	41,059	41,408	2.6 %
Mezzanine loans	522,474	522,731	34.4 %	626,883	628,102	39.5 %
Preferred equity	214,653	212,905	14.1 %	249,769	247,160	15.7 %
Total	$ 1,520,972	$ 1,518,165	100.0 %	$ 1,587,223	$ 1,583,969	100.0 %

(1) Carrying value includes unamortized origination fees of $3.0 million and $4.9 million as of December 31, 2014 and December 31, 2013, respectively.
(2) Based on outstanding principal.
(3) Assets of consolidated VIE.

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	December 31, 2014					
	Senior Mortgages	Senior Securitized Mortgages(1)	Subordinate Notes	Mezzanine Loans	Preferred Equity	Total
	(dollars in thousands)					
Beginning balance	$ 667,299	$ -	$ 41,408	$ 628,102	$ 247,160	$ 1,583,969
Originations & advances (principal)	127,112	-	-	122,742	-	249,854
Principal payments	(12,756)	-	(41,059)	(227,151)	(35,116)	(316,082)
Sales (principal)	-	-	-	-	-	-
Amortization & accretion of (premium) discounts	(138)	-	(349)	(1,093)	108	(1,472)
Net (increase) decrease in origination fees	(2,427)	(116)	-	(478)	-	(3,021)
Amortization of net origination fees	2,783	772	-	609	753	4,917
Transfers	(397,978)	397,978	-	-	-	-
Allowance for loan losses	-	-	-	-	-	-
Net carrying value	$ 383,895	$ 398,634	$ -	$ 522,731	$ 212,905	$ 1,518,165

	December 31, 2013					
	Senior Mortgages	Senior Securitized Mortgages(1)	Subordinate Notes	Mezzanine Loans	Preferred Equity	Total
	(dollars in thousands)					
Beginning balance	$ 101,473	$ -	$ 41,851	$ 547,068	$ 39,060	$ 729,452
Originations & advances (principal)	590,039	-	-	184,704	210,000	984,743
Principal payments	(24,333)	-	(235)	(90,431)	-	(114,999)
Sales (principal)	(13,750)	-	-	-	-	(13,750)
Amortization & accretion of (premium)	(109)	-	(208)	(484)	85	(716)

discounts						
Net (increase) decrease in origination fees	151	-	-	(285)	(2,118)	(2,252)
Amortization of net origination fees	1,328	-	-	30	133	1,491
Transfers	12,500	-	-	(12,500)	-	-
Allowance for loan losses	-	-	-	-	-	-
Net carrying value	$ 667,299	$ -	$ 41,408	$ 628,102	$ 247,160	$ 1,583,969

(1) Assets of consolidated VIE.

Internal CRE Debt and Preferred Equity Investment Ratings

	December 31, 2014					
			Internal Ratings			
Investment Type	Outstanding Principal	Percentage of CRE Debt and Preferred Equity Portfolio	Performing	Watch List	Defaulted-Recovery	Workout
			(dollars in thousands)			
Senior mortgages	$ 384,304	25.2 %	$ 371,331	$ -	$ 12,973 (2)	$ -
Senior securitized mortgages(1)	399,541	26.3 %	390,291	9,250	-	-
Subordinate notes	-	0.0 %	-	-	-	-
Mezzanine loans	522,474	34.4 %	522,474	-	-	-
Preferred equity	214,653	14.1 %	214,653	-	-	-
	$ 1,520,972	100.0 %	$ 1,498,749	$ 9,250	$ 12,973	$ -

	December 31, 2013					
			Internal Ratings			
Investment Type	Outstanding Principal	Percentage of CRE Debt and Preferred Equity Portfolio	Performing	Watch List	Defaulted-Recovery	Workout
			(dollars in thousands)			
Senior mortgages	$ 669,512	42.2 %	$ 644,039	$ -	$ 25,473 (3)	$ -
Subordinate notes	41,059	2.6 %	41,059	-	-	-
Mezzanine loans	626,883	39.5 %	620,883	-	6,000	-
Preferred equity	249,769	15.7 %	249,769	-	-	-
	$ 1,587,223	100.0 %	$ 1,555,750	$ -	$ 31,473	$ -

(1) Assets of consolidated VIE.
(2) Relates to one loan on nonaccrual status.
(3) Includes one loan on non-accrual status with a carrying value of $12.9 million.

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Real Estate Acquisitions

In November 2014, a joint venture, in which the Company has a 90% interest, acquired eleven retail properties located in New York, Ohio and Georgia. The purchase price was funded with cash and a new $104.0 million, ten-year, 4.03% fixed-rate interest-only mortgage loan.

The following table summarizes acquisitions of real estate held for investment during the year ended December 31, 2014:

Date of Acquisition	Type	Location		Purchase Price	Remaining Lease Term (Years) (1)
		(dollars in thousands)			
April 2014	Single-tenant retail	Tennessee	$	19,000	8
June 2014	Multi-tenant retail	Virginia	$	17,743	7
November 2014	Multi-tenant retail	New York, Ohio, Georgia	$	154,000	4.6

(1) Does not include extension options.

The aforementioned acquisitions were accounted for using the acquisition method of accounting. The Company incurred approximately $2.3 million of transaction costs in connection with the acquisitions, which were expensed during the year ended December 31, 2014 and are reflected in Other general and administrative expenses in the accompanying Consolidated Statements of Comprehensive Income (Loss).

The following table presents the aggregate allocation of the purchase price:

	Tennessee	Virginia	Joint Venture	Total
		(dollars in thousands)		
Purchase Price Allocation:				
Land	$ 3,503	$ 6,394	$ 21,581	$ 31,478
Buildings	11,960	10,862	97,133	119,955
Site improvements	1,349	1,184	12,952	15,485
Tenant Improvements	-	-	9,601	9,601
Real estate held for investment	16,812	18,440	141,267	176,519
Intangible assets (liabilities):				
Leasehold intangible assets	4,288	3,218	22,555	30,061
Above market lease	-	-	5,463	5,463
Below market lease value	(2,100)	(3,915)	(15,285)	(21,300)
Total purchase price	$ 19,000	$ 17,743	$ 154,000	$ 190,743

The weighted average amortization period for intangible assets and liabilities is 4.25 years. Above market leases joint venture at the acquisition date was $15.4 million. The fair value of the acquisition and the related

and leasehold intangible assets are included in Other assets and below market leases are included in Accounts payable and other liabilities in the Consolidated Statements of Financial Condition. The fair value of the 10% non-controlling interest in the non-controlling interest was determined based on the purchase price.

Total Commercial Real Estate Investment

	December 31, 2014	December 31, 2013
	(dollars in thousands)	
Real estate held for investment, at amortized cost		
Land	$ 38,117	$ 6,639
Buildings and improvements	176,139	31,100
Subtotal	214,256	37,739
Less: accumulated depreciation	(4,224)	(877)
Total real estate held for investment at amortized cost, net	210,032	36,862
Real estate held for sale at fair value	-	23,270
Total investment in commercial real estate, net	210,032	60,132
Net carrying value of CRE Debt and Preferred Equity Investments	1,518,165	1,583,969
Total commercial real estate investments	$ 1,728,197	$ 1,644,101

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Depreciation expense was $3.2 million and $0.9 million for the year ended December 31, 2014 and 2013, respectively and is included in General and administrative expenses in the Consolidated Statements of Comprehensive Income (Loss). The table below presents the minimum future rentals on noncancelable leases of the Company's commercial real estate investments as of December 31, 2014.

The minimum rental amounts due under the leases are generally either subject to scheduled fixed increases or adjustments. The leases generally also require that the tenants reimburse us for certain operating costs. Approximate future minimum rents to be received over the next five years and thereafter for non-cancelable operating leases in effect at December 31, 2014 for the consolidated properties, including consolidated joint venture properties are as follows (in thousands):

Rental Income

	December 31, 2014 (dollars in thousands)	
2015	$	20,299
2016		18,285
2017		15,661
2018		13,388
2019		11,050
Later years		51,087
	$	129,770

Mortgage loans payable as of December 31, 2014 and 2013, were as follows:

December 31, 2014

Property		Mortgage Carrying Value		Mortgage Principal	Interest Rate		Fixed/Floating Rate	Maturity Date	Priority
				(dollars in thousands)					
Joint Venture	$	103,950	$	103,950	4.03	%	Fixed	9/6/2019	First liens
Tennessee		12,350		12,350	4.01	%	Fixed	6/6/2019	First liens
Virginia		11,025		11,025	3.58	%	Fixed	12/6/2024	First liens
Arizona		16,709		16,600	3.50	%	Fixed	1/1/2017	First liens
Nevada		2,519		2,505	3.45	%	Floating (1)	3/29/2017	First liens
	$	146,553	$	146,430					

(1) Rate is fixed via an interest rate swap (pay fixed 3.45%, receive floating rate of L+200).

December 31, 2013

Property	Mortgage Carrying Value	Mortgage Principal	Interest Rate	Fixed/Floating Rate	Maturity Date	Priority
		(dollars in thousands)				

Arizona	$	16,762	$	16,600	3.50	%	Fixed	1/1/2017	First liens
Nevada		2,570		2,550	3.45	%	Floating (1)	3/29/2017	First liens
	$	19,332	$	19,150					

(1) Rate is fixed via an interest rate swap (pay fixed 3.45%, receive floating rate of L+200).

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The following table details future mortgage loan principal payments as of December 31, 2014:

Years Ending December 31,	Mortgage Loan Principal Payments (dollars in thousands)
2015	$ 334
2016	399
2017	18,372
2018	-
2019	23,375
Later years	103,950
	$ 146,430

VIE

Securitization

In January 2014, the Company closed NLY Commercial Mortgage Trust 2014-FL1 (the "Trust"), a $399.5 million securitization financing transaction which provides permanent, non-recourse financing collateralized by floating-rate first mortgage debt investments originated or co-originated by the Company and is not subject to margin calls. A total of $260.7 million of investment grade bonds were issued by the Trust, representing an advance rate of 65.3% at a weighted average coupon of LIBOR plus 1.74% at closing. The Company is using the proceeds to originate commercial real estate investments. The Company retained bonds rated below investment grade and the only interest-only bond issued by the Trust, which are referred to as the subordinate bonds.

The Company incurred approximately $4.3 million of costs in connection with the securitization that have been capitalized and are being amortized to interest expense. Deferred financing costs are included in Other assets in the accompanying Consolidated Statements of Financial Condition.

The Trust is structured as a pass-through entity that receives principal and interest on the underlying collateral and distributes those payments to the certificate holders. The Trust is a VIE and the Company is the primary beneficiary as a result of its ability to replace the special servicer without cause through its ownership interest in the subordinate bonds. The Company's exposure to the obligations of the VIE is generally limited to the Company's investment in the Trust. Assets of the Trust may only be used to settle obligations of the Trust. Creditors of the Trust have no recourse to the general credit of the Company. The Company is not contractually required to provide and has not provided any form of financial support to the Trust. No gain or loss was recognized upon initial consolidation of the Trust.

As of December 31, 2014 the carrying value of the Trust's assets was $398.6 million, net of $0.9 million of unamortized origination fees, which are included in Commercial real estate debt and preferred equity in the accompanying Consolidated Statements of Financial Condition. As of December 31, 2014, the carrying value of the Trust's liabilities was $260.7 million, classified as Securitized debt in the accompanying Consolidated Statements of Financial Condition.

7. FAIR VALUE MEASUREMENTS

The Company follows fair value guidance in accordance with GAAP to account for its financial instruments. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

GAAP requires classification of financial instruments into a three-level hierarchy based on the priority of the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Financial assets and liabilities recorded at fair value on the Consolidated Statements of Financial Condition or disclosed in the related notes are categorized based on the inputs to the valuation techniques as follows:

Level 1– inputs to the valuation methodology are quoted prices (unadjusted) for identical assets and liabilities in active markets.

Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – inputs to the valuation methodology are unobservable and significant to overall fair value.

The Company designates its financial instruments as available for sale or trading depending upon the type of instrument and the Company’s intent and ability to hold such instrument to maturity. Instruments classified as available for sale and trading are reported at fair value on a recurring basis.

The following is a description of the valuation methodologies used for instruments carried at fair value. These methodologies are applied to assets and liabilities across the three level fair value hierarchy, with the observability of inputs determining the appropriate level.

U.S. Treasury securities and investment in affiliates are valued using quoted prices for identical instruments in active markets. Agency mortgage-backed securities, Agency debentures, interest rate swaps, swaptions and other derivatives are valued using quoted prices or internally estimated prices for similar assets using internal models. The Company incorporates common market pricing methods, including a spread measurement to the

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Treasury curve as well as underlying characteristics of the particular security including coupon, prepayment speeds, periodic and life caps, rate reset period and expected life of the security in its estimates of fair value. Management reviews the fair values generated by the internal models to determine whether prices are reflective of the current market. Management indirectly corroborates its estimates of the fair value derived using internal models by comparing its results to independent prices provided by dealers in the securities and/or third party pricing services. Certain liquid asset classes, such as Agency fixed-rate pass-throughs, may be priced using independent sources such as quoted prices for TBA securities.

The Agency mortgage-backed securities, interest rate swap and swaption markets are considered to be active markets such that participants transact with sufficient frequency and volume to provide transparent pricing information on an ongoing basis. The liquidity of the Agency mortgage-backed securities, interest rate swaps and swaptions markets and the similarity of the Company's securities to those actively traded enable the Company to observe quoted prices in the market and utilize those prices as a basis for formulating fair value measurements. Consequently, the Company has classified Agency mortgage-backed securities, interest rate swaps, swaptions, TBA derivatives and MBS options as Level 2 inputs in the fair value hierarchy.

The following table presents the estimated fair values of financial instruments measured at fair value on a recurring basis.

December 31, 2014	Level 1	Level 2	Level 3	Total
		(dollars in thousands)		
Assets:				
U.S. Treasury securities	$-	$-	$-	$-
Agency mortgage-backed securities	-	81,565,256	-	81,565,256
Agency debentures	-	1,368,350	-	1,368,350
Investment in affiliates	143,045	-	-	143,045
Interest rate swaps	-	75,225	-	75,225
Other derivatives	117	5,382	-	5,499
Total Assets	$143,162	$83,014,213	$-	$83,157,375
Liabilities:				
U.S. Treasury securities sold, not yet purchased	$-	$-	$-	$-
Interest rate swaps	-	1,608,286	-	1,608,286
Other derivatives	3,769	4,258	-	8,027
Total Liabilities	$3,769	$1,612,544	$-	$1,616,313

At December 31, 2013	Level 1	Level 2	Level 3	Total
		(dollars in thousands)		
Assets:				
U.S. Treasury securities	$1,117,915	$-	$-	$1,117,915
Agency mortgage-backed securities	-	70,388,949	-	70,388,949
Agency debentures	-	2,969,885	-	2,969,885
Investment in affiliates	139,447	-	-	139,447
Interest rate swaps	-	559,044	-	559,044
Other derivatives	3,487	143,238	-	146,725
Total Assets	$1,260,849	$74,061,116	$-	$75,321,965

Liabilities:				
U.S. Treasury securities sold, not yet purchased	$1,918,394	$-	$-	$1,918,394
Interest rate swaps	-	1,141,828	-	1,141,828
Other derivatives	439	55,079	-	55,518
Total Liabilities	$1,918,833	$1,196,907	$-	$3,115,740

GAAP requires disclosure of fair value information about financial instruments, whether or not recognized in the financial statements, for which it is practical to estimate the value. In cases where quoted market prices are not available, fair values are based upon discounted cash flows using market yields or other valuation methodologies. Considerable judgment is necessary to interpret market data and develop estimated fair values. Accordingly, fair values are not necessarily indicative of the amount the Company would realize on disposition of the financial instruments. The use of

different market assumptions or estimation methodologies could have a material effect on the estimated fair value amounts.

The carrying value of short term instruments, including cash and cash equivalents, reverse repurchase agreements and repurchase agreements whose term is less than twelve months, and securities borrowed and securities loaned, generally approximates fair value due to the short term nature of the instruments.

The estimated fair value of commercial real estate debt and preferred equity investments takes into consideration changes in credit spreads and interest rates from the date of origination or purchase to the reporting date. The fair value also reflects consideration of asset-specific maturity dates and other items that could have an impact on the fair value as of the reporting date.

Estimates of fair value of corporate debt require the use of judgments and inputs including, but not limited to, the enterprise value of the borrower (i.e., an estimate of the total fair value of the borrower's debt and equity), the nature and realizable value of any collateral, the borrower’s ability to make payments when due and its earnings history. Management also considers factors that affect the macro and local economic markets in which the borrower operates.

The fair value of repurchase agreements with remaining maturities greater than one year or with embedded optionality are valued as structured notes, with term to maturity, LIBOR rates and the Treasury curve being primary determinants of estimated fair value.

The fair value of mortgages payable is calculated using the estimated yield of a new par loan to value the remaining terms in place. A par loan is created using the identical terms of the existing loan; however, the coupon is derived by using the original spread against the interpolated Treasury. The fair value of mortgages payable also reflects consideration of the value of the underlying collateral and changes in credit risk from the time the debt was originated.

The carrying value of participation sold is based on the loan’s amortized cost. The fair value of participation sold is based on the fair value of the underlying related commercial loan.

The fair value of convertible senior notes is determined using end of day quoted prices in active markets.

The fair value of securitized debt of consolidated VIE is determined using the average of external vendor pricing services.

The following table summarizes the estimated fair value for financial assets and liabilities as of December 31, 2014 and 2013.

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	Level in Fair Value Hierarchy	December 31, 2014 Carrying Value	December 31, 2014 Fair Value	December 31, 2013 Carrying Value	December 31, 2013 Fair Value
Financial assets:		(dollars in thousands)			
Cash and cash equivalents	1	$ 1,741,244	$ 1,741,244	$ 552,436	$ 552,436
Reverse repurchase agreements	1	100,000	100,000	100,000	100,000
Securities borrowed	1	-	-	2,582,893	2,582,893
U.S. Treasury securities	1	-	-	1,117,915	1,117,915
Agency mortgage-backed securities	2	81,565,256	81,565,256	70,388,949	70,388,949
Agency debentures	2	1,368,350	1,368,350	2,969,885	2,969,885
Investment in affiliates	1	143,045	143,045	139,447	139,447
Commercial real estate debt and preferred equity	3	1,518,165	1,528,444	1,583,969	1,581,836
Corporate debt	2	166,464	166,056	117,687	118,362
Interest rate swaps	2	75,225	75,225	559,044	559,044
Other derivatives	1,2	5,499	5,499	146,725	146,725
Financial liabilities:					
U.S. Treasury securities sold, not yet purchased	1	$ -	$ -	$ 1,918,394	$ 1,918,394
Repurchase agreements	1,2	71,361,926	71,587,222	61,781,001	62,134,133
Securities loaned	1	-	-	2,527,668	2,527,668
Convertible Senior Notes	1	845,295	863,470	825,262	870,199
Securitized debt of consolidated VIE	2	260,700	262,061	-	-
Mortgages payable	2	146,553	146,611	19,332	19,240
Participation sold	3	13,693	13,655	14,065	14,050
Interest rate swaps	2	1,608,286	1,608,286	1,141,828	1,141,828
Other derivatives	1,2	8,027	8,027	55,518	55,518

8. SECURED FINANCING

The Company had outstanding $71.4 billion and $61.8 billion of repurchase agreements with weighted average borrowing rates of 1.62% and 2.33%, after giving effect to the Company's interest rate swaps, and weighted average remaining maturities of 141 days and 204 days as of December 31, 2014 and 2013, respectively.

At December 31, 2014 and 2013, the repurchase agreements had the following remaining maturities and weighted average rates:

	December 31, 2014 Repurchase Agreements	December 31, 2014 Weighted Average Rate	December 31, 2013 Repurchase Agreements	December 31, 2013 Weighted Average Rate

1 day	$	-	0.00	%	$	-	0.00	%
2 to 29 days		28,354,167	0.35	%		21,171,574	0.36	%
30 to 59 days		17,336,469	0.43	%		13,373,921	0.43	%
60 to 89 days		4,040,677	0.38	%		3,592,266	0.44	%
90 to 119 days		2,945,495	0.50	%		4,010,334	0.52	%
Over 120 days(1)		18,685,118	1.24	%		19,632,906	1.29	%
Total	$	71,361,926	0.61	%	$	61,781,001	0.68	%

(1) Approximately 15% and 16% of the total repurchase agreements had a remaining maturity over 1 year as of December 31, 2014 and 2013, respectively.

Repurchase agreements and reverse repurchase agreements with the same counterparty and the same maturity are presented net in the Consolidated Statements of Financial Condition when the terms of the agreements permit netting. The following table summarizes the gross amounts of reverse repurchase agreements and repurchase agreements, amounts offset in accordance with netting arrangements and net amounts of repurchase agreements and reverse repurchase agreements as presented in the Consolidated Statements of Financial Condition as of December 31, 2014 and 2013.

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	December 31, 2014		December 31, 2013	
	Reverse Repurchase Agreements	Repurchase Agreements	Reverse Repurchase Agreements	Repurchase Agreements
	(dollars in thousands)			
Gross Amounts	$ 700,000	$ 71,961,926	$ 2,524,980	$ 64,205,981
Amounts Offset	(600,000)	(600,000)	(2,424,980)	(2,424,980)
Netted Amounts	$ 100,000	$ 71,361,926	$ 100,000	$ 61,781,001

9. DERIVATIVE INSTRUMENTS

In connection with the Company's investment/market rate risk management strategy, the Company economically hedges a portion of its interest rate risk by entering into derivative financial instrument contracts, which include interest rate swaps, swaptions and U.S. Treasury futures contracts. The Company also enters into TBA derivatives and MBS options to economically hedge its exposure to market risks. The purpose of using derivatives is to manage overall portfolio risk with the potential to generate additional income for distribution to stockholders. These derivatives are subject to changes in market values resulting from changes in interest rates, volatility, Agency mortgage-backed security spreads to U.S. Treasuries and market liquidity. The use of derivatives also creates exposure to credit risk relating to potential losses that could be recognized if the counterparties to these instruments fail to perform their obligations under the stated contract. Additionally, the Company may have to pledge cash or assets as collateral for the derivative transactions, the amount of which may vary based on the market value, notional amount and remaining term of the derivative contract. In the event of a default by the counterparty, the Company could have difficulty obtaining its Investment Securities pledged as collateral as well as receiving payments in accordance with the terms of the derivative contracts.

The table below summarizes fair value information about our derivative assets and liabilities as of December 31, 2014 and 2013:

Derivatives Instruments	Balance Sheet Location	December 31, 2014	December 31, 2013
Assets:		(dollars in thousands)	
Interest rate swaps	Interest rate swaps, at fair value	$ 75,225	$ 559,044
Interest rate swaptions	Other derivative contracts, at fair value	5,382	110,361
TBA derivatives	Other derivative contracts, at fair value	-	20,693
MBS options	Other derivative contracts, at fair value	-	12,184
Futures contracts	Other derivative contracts, at fair value	117	3,487
		$ 80,724	$ 705,769
Liabilities:			
Interest rate swaps	Interest rate swaps, at fair value	1,608,286	1,141,828
Interest rate swaptions	Other derivative contracts, at fair value	-	24,662

TBA derivatives	Other derivative contracts, at fair value		4,258		13,779
MBS options	Other derivative contracts, at fair value		-		16,638
Futures contracts	Other derivative contracts, at fair value		3,769		439
		$	1,616,313	$	1,197,346

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The following table summarizes certain characteristics of the Company's interest rate swaps at December 31, 2014 and 2013:

December 31, 2014				
Maturity	Current Notional (1)	Weighted Average Pay Rate (2) (3)	Weighted Average Receive Rate (2)	Weighted Average Years to Maturity (2)
	(dollars in thousands)			
0 - 3 years	$ 2,502,505	1.63 %	0.17 %	2.64
3 - 6 years	11,138,000	2.06 %	0.22 %	5.18
6 - 10 years	13,069,200	2.67 %	0.23 %	8.57
Greater than 10 years	4,751,800	3.58 %	0.20 %	19.53
Total / Weighted Average	$ 31,461,505	2.49 %	0.22 %	8.38

(1) Notional amount includes $500.0 million in forward starting pay fixed swaps.
(2) Excludes forward starting swaps.
(3) Weighted average fixed rate on forward starting pay fixed swaps was 3.25%.

December 31, 2013				
Maturity	Current Notional	Weighted Average Pay Rate	Weighted Average Receive Rate	Weighted Average Years to Maturity
	(dollars in thousands)			
0 - 3 years	$ 24,286,000	1.83 %	0.18 %	1.98
3 - 6 years	8,865,410	2.02 %	0.19 %	4.19
6 - 10 years	15,785,500	2.37 %	0.23 %	7.66
Greater than 10 years	3,490,000	3.62 %	0.20 %	19.93
Total / Weighted Average	$ 52,426,910	2.14 %	0.20 %	5.26

The following table summarizes certain characteristics of the Company's interest rate swaptions at December 31, 2014 and 2013:

December 31, 2014	Current Underlying Notional	Weighted Average Underlying Pay Rate	Weighted Average Underlying Receive Rate	Weighted Average Underlying Years to Maturity	Weighted Average Months to Expiration
			(dollars in thousands)		
Long	$ 1,750,000	2.88%	3M LIBOR	9.17	3.59
Short	$ -	-	-	-	-

December 31, 2013	Current Underlying Notional	Weighted Average Underlying Pay Rate	Weighted Average Underlying Receive Rate	Weighted Average Underlying Years to Maturity	Weighted Average Months to Expiration
	(dollars in thousands)				
Long	$ 5,150,000	3.07%	3M LIBOR	10.10	4.26
Short	$ 1,000,000	3M LIBOR	2.83%	5.96	23.71

The following table summarizes certain characteristics of the Company's TBA derivatives at December 31, 2014 and 2013:

December 31, 2014				
Purchase and sale contracts for derivative TBAs	Notional	Implied Cost Basis	Implied Market Value	Net Carrying Value
	(dollars in thousands)			
Purchase contracts	$ -	$ -	$ -	$ -
Sale contracts	(375,000)	(375,430)	(379,688)	(4,258)
Net TBA derivatives	$ (375,000)	$ (375,430)	$ (379,688)	$ (4,258)

December 31, 2013				
Purchase and sale contracts for derivative TBAs	Notional	Implied Cost Basis	Implied Market Value	Net Carrying Value
	(dollars in thousands)			
Purchase contracts	$ 2,625,000	$ 2,733,682	$ 2,722,324	$ (11,357)
Sale contracts	(3,875,000)	(3,923,213)	(3,904,941)	18,271
Net TBA derivatives	$ (1,250,000)	$ (1,189,531)	$ (1,182,617)	$ 6,914

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The Company presents derivative contracts on a gross basis on the Consolidated Statements of Financial Condition. Derivative contracts may contain legally enforceable provisions that allow for netting or setting off receivables and payables with each counterparty.

The following tables present information about derivative assets and liabilities that are subject to such provisions and can potentially be offset on our Consolidated Statements of Financial Condition as of December 31, 2014 and 2013, respectively.

December 31, 2014		Amounts Eligible for Offset		
	Gross Amounts	Financial Instruments	Cash Collateral	Net Amounts
Assets:		(dollars in thousands)		
Interest rate swaps, at fair value	$ 75,225	$ (66,180)	$ -	$ 9,045
Interest rate swaptions, at fair value	5,382	-	-	5,382
TBA derivatives, at fair value	-	-	-	-
MBS options, at fair value	-	-	-	-
Futures contracts, at fair value	117	(117)	-	-
Liabilities:				
Interest rate swaps, at fair value	$ 1,608,286	$ (66,180)	$ (869,302)	$ 672,804
Interest rate swaptions, at fair value	-	-	-	-
TBA derivatives, at fair value	4,258	-	-	4,258
MBS options, at fair value	-	-	-	-
Futures contracts, at fair value	3,769	(117)	-	3,652

		Amounts Eligible for Offset		
December 31, 2013	Gross Amounts	Financial Instruments	Cash Collateral	Net Amounts
Assets:		(dollars in thousands)		
Interest rate swaps, at fair value	$ 559,044	$ (408,553)	$ -	$ 150,491
Interest rate swaptions, at fair value	110,361	(24,662)	-	85,699
TBA derivatives, at fair value	20,693	(9,775)	-	10,918
MBS options, at fair value	12,184	(3,292)	-	8,892
Futures contracts, at fair value	3,487	(439)	-	3,048

Liabilities:				
Interest rate swaps, at fair value	$ 1,141,828	$ (408,553)	$ -	$ 733,275
Interest rate swaptions, at fair value	24,662	(24,662)	-	-
TBA derivatives, at fair value	13,779	(9,775)	-	4,004
MBS options, at fair value	16,638	(3,292)	-	13,346
Futures contracts, at fair value	439	(439)	-	-

The effect of interest rate swaps on the Consolidated Statements of Comprehensive Income (Loss) is as follows:

	Location on Consolidated Statements of Comprehensive Income (Loss)		
	Realized Gains (Losses) on Interest Rate Swaps(1)	Realized Gains (Losses) on Termination of Interest Rate Swaps	Unrealized Gains (Losses) on Interest Rate Swaps
		(dollars in thousands)	
For the Years Ended:			
December 31, 2014	$ (825,360)	$ (779,333)	$ (948,755)
December 31, 2013	$ (908,294)	$ (101,862)	$ 2,002,200
December 31, 2012	$ (893,769)	$ (2,385)	$ (32,219)

(1) Interest expense related to interest rate swaps is recorded in realized gains (losses) on interest rate swaps on the Consolidated Statements of Operations and Comprehensive Income (Loss).

As of December 31, 2014, the swap portfolio, excluding forward starting swaps, had a weighted average pay rate of 2.49% and a weighted average receive rate of 0.22%. The weighted average pay rate at December 31, 2013 was 2.14% and the weighted average receive rate was 0.20%.

The effect of other derivative contracts on the Company’s Consolidated Statements of Comprehensive Income (Loss) is as follows:

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Years Ended December 31, 2014

Derivative Instruments	Realized Gain (Loss)	Unrealized Gain (Loss)	Amount of Gain/(Loss) Recognized in Net Gains (Losses) on Trading Assets
	(dollars in thousands)		
Net TBA derivatives (1)	$ (60,091)	$ (12,763)	$ (72,854)
Net interest rate swaptions	$ (121,345)	$ (20,167)	$ (141,512)
U.S. Treasury futures	$ (30,056)	$ (6,701)	$ (36,757)
			$ (251,123)

Year Ended December 31, 2013

Derivative Instruments	Realized Gain (Loss)	Unrealized Gain (Loss)	Amount of Gain/(Loss) Recognized in Net Gains (Losses) on Trading Assets
	(dollars in thousands)		
Net TBA derivatives (1)	$ 33,728	$ 6,630	$ 40,358
Net interest rate swaptions	$ (2,697)	$ (15,467)	$ (18,164)
U.S. Treasury futures	$ (38,514)	$ (2,851)	$ (41,365)
			$ (19,171)

(1) Includes options on TBA securities.

Certain of the Company's derivative contracts are subject to International Swaps and Derivatives Association Master Agreements or other similar agreements which may contain provisions that grant counterparties certain rights with respect to the applicable agreement upon the occurrence of certain events such as (i) a decline in stockholders' equity in excess of specified thresholds or dollar amounts over set periods of time, (ii) the Company's failure to maintain its REIT status, (iii) the Company's failure to comply with limits on the amount of leverage, and (iv) the Company's stock being delisted from the New York Stock Exchange (NYSE). Upon the occurrence of any one of items (i) through (iv), or another default under the agreement, the counterparty to

conversion rate for each $1,000 principal amount of 4% Convertible Senior Notes. The initial conversion rate was 46.6070, which was equivalent to an initial conversion price of approximately $21.4560 per share of Common Stock. The conversion rate at December 31, 2014 was 88.7389, which is equivalent to a conversion price of approximately $11.2690 per share of Common Stock. The conversion rate is subject to adjustment in certain circumstances. There is no limit on the total number of shares of Common Stock that the Company would be required to issue upon a conversion.

The intrinsic value of the contingent beneficial conversion feature was $110.5 million and $93.2 million

the applicable agreement has a right to terminate the agreement in accordance with its provisions. The aggregate fair value of all derivative instruments with the aforementioned features that are in a net liability position at December 31, 2014 was approximately $1.5 billion, which represents the maximum amount the Company would be required to pay upon termination. This amount is fully collateralized.

10. CONVERTIBLE SENIOR NOTES

In 2010, the Company issued $600.0 million in aggregate principal amount of its 4% convertible senior notes due 2015 (“4% Convertible Senior Notes”) for net proceeds of approximately $582.0 million. The Company has repurchased $492.5 million in aggregate principal amount of its 4% Convertible Senior Notes as of December 31, 2014. Interest on the 4% Convertible Senior Notes is paid semi-annually at a rate of 4% per year and the 4% Convertible Senior Notes will mature on February 15, 2015 unless repurchased or converted earlier. The 4% Convertible Senior Notes are convertible into shares of Common Stock at a

at December 31, 2014 and 2013, respectively, which is reflected in Additional paid-in capital on the Company’s Consolidated Statements of Financial Condition, and reduces the recorded liability on the 4% Convertible Senior Notes. The unamortized contingent beneficial conversion feature of the 4% Convertible Senior Notes at December 31, 2014 and 2013 of $10.8 million and $26.9 million, respectively, is recognized in interest expense over the remaining life of the notes.

In May 2012, the Company issued $750.0 million in aggregate principal amount of its 5% convertible senior notes due 2015 (“5% Convertible Senior Notes”) for net proceeds of approximately $727.5 million. Interest on the 5% Convertible Senior Notes is paid semi-annually at a rate of 5% per year and the 5% Convertible Senior Notes will mature on May 15, 2015 unless repurchased or converted earlier. The 5% Convertible Senior Notes are convertible into shares of Common Stock at a conversion rate for each $1,000 principal amount of 5% Convertible Senior Notes. The initial conversion rate and conversion rate at December 31, 2014 was 52.7969, which was equivalent to an

initial conversion price of approximately $18.94 per share of Common Stock, subject to adjustment in certain circumstances. Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of Common Stock or a combination of cash and shares of Common Stock, at the Company's sole discretion. There is no limit on the total number of shares of Common Stock that the Company would be required to issue upon a conversion.

At issuance, the Company determined that the 5% Convertible Senior Notes included an equity component of $11.7 million, which is reflected in Additional paid-in capital on the Company's Consolidated Statements of Financial Condition, and reduces the recorded liability on the 5% Convertible Senior Notes. The $11.7 million discount to the principal amount of the Convertible Senior Notes is recognized in interest expense over the remaining life of the notes. At December 31, 2014 and 2013, $1.5 million and $5.4 million, respectively, of the unamortized discount had not been reflected in interest expense.

The 4% Convertible Senior Notes due 2015 and the 5% Convertible Senior Notes due 2015 rank pari-passu with each other. They are each a general corporate obligation and therefore rank junior to collateralized debt of the Company with respect to secured collateral.

The 4% Convertible Senior Notes and the 5% Convertible Senior Notes rank senior to the 7.875% Series A Cumulative Redeemable Preferred Stock, 7.625% Series C Cumulative Redeemable Preferred Stock and 7.50% Series D Cumulative Redeemable Preferred Stock. The 7.875% Series A Cumulative Redeemable Preferred Stock, 7.625% Series C Cumulative Redeemable Preferred Stock and 7.50% Series D Cumulative Redeemable Preferred Stock rank pari-passu with each other.

The 7.875% Series A Cumulative Redeemable Preferred Stock, 7.625% Series C Cumulative Redeemable Preferred Stock and 7.50% Series D Cumulative Redeemable Preferred Stock rank senior to the common stock of the Company.

12,650,000 shares classified as 7.625% Series C Cumulative Redeemable Preferred Stock and 18,400,000 shares classified as 7.50% Series D Cumulative Redeemable Preferred Stock.

(A) Common Stock

At December 31, 2014 and 2013, the Company had issued and outstanding 947,643,079 and 947,432,862 shares of common stock, with a par value of $0.01 per share.

No options were exercised during the year ended December 31, 2014. During the year ended December 31, 2013, 166,000 options were exercised for an aggregate exercise price of $2.2 million. During the year ended December 31, 2012, 603,000 options were exercised for an aggregate exercise price of $8.4 million.

During the year ended December 31, 2014, we raised $2.4 million, by issuing 210,000 shares, through the Direct Purchase and Dividend Reinvestment Program. During the year ended December 31, 2013, we raised $2.9 million, by issuing 219,000 shares, through the Direct Purchase and Dividend Reinvestment Program. During the year ended December 31, 2012, we raised $2.8 million, by issuing 170,000 shares, through the Direct Purchase and Dividend Reinvestment Program.

During the year ended December 31, 2012, 1.3 million shares of Series B Preferred Stock were converted into 4.0 million shares of common stock.

In October 2012, the Company announced that its board of directors ("Board of Directors") had authorized the repurchase of up to $1.5 billion of its outstanding common shares over a 12 month period. All common shares purchased were part of a publicly announced plan in open-market transactions. The repurchase plan expired in October 2013. There were no purchases made by the Company under this repurchase plan during the year ended December 31, 2013.

11. COMMON STOCK AND PREFERRED STOCK

The Company's authorized shares of capital stock, par value of $0.01 per share, consists of 1,956,937,500 shares classified as common stock, 7,412,500 shares classified as 7.875% Series A Cumulative Redeemable Preferred Stock, 4,600,000 shares classified as 6.00% Series B Cumulative Convertible Preferred Stock,

In March 2012, the Company entered into six separate Distribution Agency Agreements ("Distribution Agency Agreements") with each of Merrill Lynch, Pierce, Fenner & Smith Incorporated, Credit Suisse Securities (USA) LLC, Goldman, Sachs & Co., J.P. Morgan Securities LLC, Morgan Stanley & Co. LLC and RCap Securities, Inc. (together, the Agents). Pursuant to the terms of the Distribution Agency Agreements, the Company may sell from time to time through the Agents, as its sales agents, up to 125,000,000 shares of the Company's common stock.

The Company did not make any sales under the Distribution Agency Agreements during the years ended December 31, 2014 and 2013.

(B) Preferred Stock

At December 31, 2014 and 2013, the Company had issued and outstanding 7,412,500 shares of Series A Cumulative Redeemable Preferred Stock ("Series A Preferred Stock"), with a par value of $0.01 per share and a liquidation preference of $25.00 per share plus accrued and unpaid dividends (whether or not declared). The Series A Preferred Stock is entitled to a dividend at a rate of 7.875% per year based on the $25.00 liquidation preference before the common stock is entitled to receive any dividends. The Series A Preferred Stock is redeemable at $25.00 per share plus accrued and unpaid dividends (whether or not declared) exclusively at the Company's option commencing on April 5, 2009 (subject to the Company's right under limited circumstances to redeem the Series A Preferred Stock earlier in order to preserve its qualification as a REIT). Through December 31, 2014, the Company had declared and paid all required quarterly dividends on the Series A Preferred Stock.

At December 31, 2014 and 2013, the Company had issued and outstanding 12,000,000 shares of Series C Preferred Stock, with a par value of $0.01 per share and a liquidation preference of $25.00 per share plus accrued and unpaid dividends (whether or not declared). The Series C Preferred Stock is entitled to a dividend at a rate of 7.625% per year based on the $25.00 liquidation preference before the common stock is entitled to receive any dividends. The Series C Preferred Stock is redeemable at $25.00 per share plus accrued and unpaid dividends (whether or not declared) exclusively at the Company's option commencing on May 16, 2017 (subject to the Company's right under limited circumstances to redeem the Series C Preferred Stock earlier in order to preserve its qualification as a REIT or under limited circumstances related to a change of control of the Company). Through December 31, 2014, the Company had declared and paid all required quarterly dividends on the Series C Preferred Stock.

is entitled to receive any dividends. The Series D Preferred Stock is redeemable at $25.00 per share plus accrued and unpaid dividends (whether or not declared) exclusively at the Company's option commencing on September 13, 2017 (subject to the Company's right under limited circumstances to redeem the Series D Preferred Stock earlier in order to preserve its qualification as a REIT or under limited circumstances related to a change of control of the Company). Through December 31, 2014, the Company had declared and paid all required quarterly dividends on the Series D Preferred Stock.

(C) Distributions to Stockholders

During the year ended December 31, 2014, the Company declared dividends to common stockholders totaling $1.1 billion, or $1.20 per common share, of which $284.3 million, or $0.30 per common share, was paid to stockholders on January 29, 2015. During the year ended December 31, 2014, the Company declared dividends to Series A Preferred stockholders totaling approximately $14.6 million or $1.97 per share, Series C Preferred stockholders totaling approximately $22.9 million or $1.91 per share, Series D Preferred stockholders totaling approximately $34.5 million or $1.88 per share.

During the year ended December 31, 2013, the Company declared dividends to common stockholders totaling $1.4 billion, or $1.50 per common share, of which $284.2 million, or $0.30 per common share, was paid to stockholders on January 31, 2014. During the year ended December 31, 2013, the Company declared dividends to Series A Preferred stockholders totaling approximately $14.6 million or $1.97 per share, Series C Preferred stockholders totaling approximately $22.9 million or $1.91 per share, Series D Preferred stockholders totaling approximately $34.5 million or $1.88 per share.

During the year ended December 31, 2012, the Company declared dividends to common stockholders totaling $2.0 billion or $2.05 per share, of which $432.2 million were paid to stockholders on January 29, 2013.

At December 31, 2014 and 2013, the Company had issued and outstanding 18,400,000 shares of Series D Preferred Stock, with a par value of $0.01 per share and a liquidation preference of $25.00 per share plus accrued and unpaid dividends (whether or not declared). The Series D Preferred Stock is entitled to a dividend at a rate of 7.50% per year based on the $25.00 liquidation preference before the common stock

During the year ended December 31, 2012, the Company declared dividends to Series A Preferred stockholders totaling approximately $14.6 million or $1.97 per share, Series B Preferred stockholders totaling approximately $289,000 or $0.375 per share, Series C Preferred stockholders totaling approximately $14.3 million or $1.19 per share, Series D Preferred stockholders totaling approximately $10.4 million or $0.56 per share.

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12. INTEREST INCOME AND INTEREST EXPENSE

The table below presents the components of the Company's interest income and interest expense for the years ended December 31, 2014, 2013 and 2012.

	Years Ended December 31,		
	December 31, 2014	December 31, 2013	December 31, 2012
Interest income:		(dollars in thousands)	
Investment Securities	$ 2,467,783	$ 2,788,354	$ 3,217,648
Commercial investment portfolio(1)	161,837	81,445	7,621
U.S. Treasury securities	1,329	29,081	17,222
Securities loaned	114	8,788	9,903
Reverse repurchase agreements	1,335	10,459	6,218
Other	249	435	533
Total interest income	2,632,647	2,918,562	3,259,145
Interest expense:			
Repurchase agreements	417,194	530,170	577,243
Convertible Senior Notes	87,293	67,057	67,221
U.S. Treasury securities sold, not yet purchased	1,076	20,235	15,114
Securities borrowed	95	6,785	7,594
Securitized debt of consolidated VIE	6,350	-	-
Participation sold	651	467	-
Total interest expense	512,659	624,714	667,172
Net interest income	$ 2,119,988	$ 2,293,848	$ 2,591,973

(1) Includes commercial real estate debt, preferred equity and corporate debt.

13. GOODWILL

At December 31, 2014 and 2013, goodwill totaled $94.8 million. In 2013, the Company recorded a $32.4 million reduction of goodwill related to Merganser, which was comprised of a $24.0 million impairment charge based on market information that became available to the Company and an $8.4 million reduction resulting from the sale of the net assets and operations of the entity. The Company also recorded $71.8 million of additional goodwill associated with the acquisition of CreXus in 2013.

14. NET INCOME (LOSS) PER COMMON SHARE

The following table presents a reconciliation of net income (loss) and shares used in calculating basic and diluted net income (loss) per share for the years ended December 31, 2014, 2013 and 2012.

	For the Years Ended		
	December 31, 2014	December 31, 2013	December 31, 2012
	(dollars in thousands, except per share data)		
Net income (loss) attributable to Annaly	(842,083)	3,729,698	1,735,900
Less: Preferred stock dividends	71,968	71,968	39,530

Net income (loss) per share available (related) to common stockholders, prior to adjustment for dilutive potential common shares, if necessary	(914,051)	3,657,730	1,696,370
Add: Interest on Convertible Senior Notes, if dilutive	-	67,056	27,843
Net income (loss) available to common stockholders, as adjusted	(914,051)	3,724,786	1,724,213
Weighted average shares of common stock outstanding-basic	947,539,294	947,337,915	972,902,459
Add: Effect of stock awards and Convertible Senior Notes, if dilutive	-	48,219,111	32,852,598
Weighted average shares of common stock outstanding-diluted	947,539,294	995,557,026	1,005,755,057
Net income (loss) per share available (related) to common share:			
Basic	$ (0.96)	$ 3.86	$ 1.74
Diluted	$ (0.96)	$ 3.74	$ 1.71

Options to purchase 2.3 million shares of common stock were outstanding and considered anti-dilutive as their exercise price and option expense exceeded the average stock price for the year ended December 31, 2014. Options to purchase 3.5 million shares of common stock were outstanding and considered anti-dilutive as their exercise price and option expense exceeded the average stock price for the year ended

December 31, 2013. Options to purchase 2.8 million shares of common stock were outstanding and considered anti-dilutive as their exercise price and option expense exceeded the average stock price for the year ended December 31, 2012.

15. LONG-TERM STOCK INCENTIVE PLAN

The Company adopted the 2010 Equity Incentive Plan (the “Plan”), which authorizes the Compensation Committee of the Board of Directors to grant options, stock appreciation rights, dividend equivalent rights, or other share-based awards, including restricted shares up to an aggregate of 25,000,000 shares, subject to adjustments as provided in the 2010 Equity Incentive Plan. The Company had previously adopted a long term stock incentive plan for executive officers, key employees and non-employee directors (the “Prior Plan”). The Prior Plan authorized the Compensation Committee of the Board of Directors to grant awards, including non-qualified options as well as incentive stock options as defined under Section 422 of the Code. The Prior Plan authorized the granting of options or other awards for an aggregate of the greater of 500,000 shares or 9.5% of the diluted outstanding shares of the Company’s common stock, up to a ceiling of 8,932,921 shares. No further awards will be made under the Prior Plan, although existing awards remain effective.

Stock options were issued at the market price on the date of grant, subject to an immediate or four year vesting in four equal installments with a contractual term of 5 or 10 years.

The following table sets forth activity related to the Company’s stock options awarded under the Plan:

	For the Years Ended			
	December 31, 2014		December 31, 2013	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Options outstanding at the beginning of year	3,581,752	$ 15.44	5,618,686	$ 15.74
Granted	-	-	-	-
Exercised	-	-	(166,375)	13.25
Forfeited	(1,016,667)	15.07	(1,513,934)	16.22
Expired	(305,750)	17.34	(356,625)	17.91
Options outstanding at the end of period	2,259,335	$ 15.35	3,581,752	$ 15.44
Options exercisable at the end of the period	2,259,335	$ 15.35	3,581,752	$ 15.44

The weighted average remaining contractual term was approximately 3.1 years and 3.8 years for stock options outstanding and exercisable as of December 31, 2014 and 2013, respectively.

As of December 31, 2014 and 2013, there was no unrecognized compensation cost related to nonvested share-based compensation awards.

permitted by the Code. For years prior to 2013, the Company retained the amount of taxable income attributable to certain employee remuneration deductions disallowed for tax purposes pursuant to Section 162(m) of the Code (“Section 162(m)”). As a result of the externalization of management effective as of July 1, 2013, the Company was not subject to the Section 162(m) disallowance for the 2013 tax year.

16. INCOME TAXES

For the year ended December 31, 2014 the Company was qualified to be taxed as a REIT under Code Sections 856 through 860. As a REIT, the Company is not subject to federal income tax to the extent that it distributes its taxable income to its stockholders. To maintain qualification as a REIT, the Company must distribute at least 90% of its annual REIT taxable income to its stockholders and meet certain other requirements such as assets it may hold, income it may generate and its stockholder composition. It is generally the Company's policy to distribute 100% of its REIT taxable income. To the extent there is any undistributed REIT taxable income at the end of a year, the Company distributes such shortfall within the next year as

The state and local tax jurisdictions for which the Company is subject to tax-filing obligations recognize the Company's status as a REIT, and therefore, the Company generally does not pay income tax in such jurisdictions. The Company may, however, be subject to certain minimum state and local tax filing fees as well as certain excise, franchise or business taxes. The Company's TRSs are subject to federal, state and local taxes.

During the year ended December 31, 2014, the Company recorded $5.9 million of income tax expense for income attributable to its TRSs.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
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During the year ended December 31, 2013, the Company recorded $8.2 million of income tax expense for income attributable to its TRSs.

During the year ended December 31, 2012, the Company recorded $13.8 million of income tax expense for income attributable its TRSs. During the year ended December 31, 2012, the Company also recorded $22.1 million of income tax expense for a portion of earnings retained based on Section 162(m) limitations.

The Company's 2013, 2012 and 2011 federal, state and local tax returns remain open for examination.

17. LEASE COMMITMENTS AND CONTINGENCIES

Commitments

The Company had a non-cancelable lease for office space which commenced in May 2002 and expired in December 2014. In June 2014, the Company entered into a non-cancelable lease for office space which commenced in July 2014 and expires in September 2025. FIDAC has a lease for office space which commenced in October 2010 and expires in February 2016. The lease expense for the years ended December 31, 2014, 2013, and 2012 were $3.0 million, $2.3 million and $2.5 million, respectively. The Company's aggregate future minimum lease payments total $37.5 million. The following table details the lease payments.

Years Ending December 31,	Lease Commitments (dollars in thousands)
2015	$ 1,199
2016	3,591
2017	3,565
2018	3,565
2019	3,565
Later years	21,992
	$ 37,477

The Company had no material unfunded loan commitments as of December 31, 2014 and 2013.

Contingencies

From time to time, the Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material effect on the Company's consolidated financial statements.

18. RISK MANAGEMENT

The primary risks to the Company are liquidity and investment/market risk. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international the interest earning assets and the Company's ability to realize gains from the sale of these assets. A decline in the value of the interest earning assets pledged as collateral for borrowings under repurchase agreements and derivative contracts could result in the counterparties demanding additional collateral pledges or liquidation of some of the existing collateral to reduce borrowing levels.

The Company may seek to mitigate the potential financial impact by entering into interest rate agreements such as interest rate swaps, interest rate swaptions and other hedges.

Weakness in the mortgage market, the shape of the yield curve and changes in the expectations for the volatility of future interest rates may adversely affect the performance and market value of the Company's

economic and political considerations and other factors beyond the Company's control. Changes in the general level of interest rates can affect net interest income, which is the difference between the interest income earned on interest earning assets and the interest expense incurred in connection with the interest bearing liabilities, by affecting the spread between the interest earning assets and interest bearing liabilities. Changes in the level of interest rates can also affect the value of investments. This could negatively impact the Company's book value. Furthermore, if many of the Company's lenders are unwilling or unable to provide additional financing, the Company could be forced to sell its Investment Securities at an inopportune time when prices are depressed. The Company has established policies and procedures for mitigating risks, including conducting scenario analyses and utilizing a range of hedging strategies.

The payment of principal and interest on the Freddie Mac and Fannie Mae Agency mortgage-backed securities are guaranteed by those respective agencies and the payment of principal and interest on Ginnie Mae Agency mortgage-backed securities are backed by the full faith and credit of the U.S. government. Principal and interest on Agency debentures are guaranteed by the agency issuing the debenture. Substantially all of the Company's Investment Securities have an actual or implied "AAA" rating.

The Company faces credit risk on the portions of its portfolio which are not Agency mortgage-backed securities, Agency debentures or U.S. Treasury securities. The Company is exposed to credit risk on CRE Debt and Preferred Equity Investments, investments in commercial real estate and corporate debt. The Company is exposed to risk of loss if an issuer, borrower, tenant or counterparty fails to perform its obligations under contractual terms. The Company has established policies and procedures for mitigating credit risk, including reviewing and establishing limits for credit exposure, limiting transactions with specific counterparties, maintaining qualifying collateral and continually assessing the creditworthiness of issuers, borrowers, tenants and counterparties.

19. RCAP REGULATORY REQUIREMENTS

RCap is subject to regulations of the securities business that include but are not limited to trade practices, use and safekeeping of funds and securities, capital structure, recordkeeping and conduct of directors, officers and employees.

As a self-clearing, registered broker dealer, RCap is required to maintain minimum net capital by FINRA. As of December 31, 2014 RCap had a minimum net capital requirement of $0.3 million. RCap consistently operates with capital in excess of its regulatory capital requirements. RCap's regulatory net capital as defined by SEC Rule 15c3-1, as of December 31, 2014 was $399.8 million with excess net capital of $399.5 million.

20. RELATED PARTY TRANSACTIONS

approximately 45.0 million shares of Chimera at a fair value of approximately $143.0 million at December 31, 2014 and approximately 45.0 million shares of Chimera at a fair value of approximately $139.4 million at December 31, 2013. The Company evaluates the near term prospects of its current investment in Chimera in relation to the severity and length of time of impairment, if any. At December 31, 2014 and 2013, the investment in Chimera had unrealized gains of $4.2 million and $0.6 million, respectively.

Advisory fees

For the year ended December 31, 2014, the Company recorded advisory fees from Chimera totaling $31.3 million. In August 2014, the management agreement between FIDAC and Chimera was amended and restated to amend certain of the terms and conditions of the prior agreement. Among other amendments to the terms of the prior agreement, effective August 8, 2014, the management fee was increased from 0.75% to 1.20% of Chimera's gross stockholders' equity (as defined in the amended and restated management agreement). For the year ended December 31, 2013, the Company recorded advisory fees from Chimera and CreXus, prior to its acquisition, totaling $31.1 million. At December 31, 2014 and 2013, the Company had amounts receivable from Chimera of $10.4 million and $6.8 million, respectively.

Management Agreement

The Company and the Manager have entered into a management agreement pursuant to which the Company's management is conducted by the Manager through the authority delegated to it in the Management Agreement and pursuant to the policies established by the Board of Directors (the "Externalization"). The management agreement was effective as of July 1, 2013 and applicable for the entire 2013 calendar year and was amended on November 5, 2014 (the management agreement, as amended, is referred to as "Management Agreement").

Investment in Affiliate, Available-For-Sale Equity Security

At December 31, 2014, the Company's available-for-sale equity securities represented shares of Chimera Investment Corporation ("Chimera"), which are reported at fair value. The Company owned

Pursuant to the terms of the Management Agreement, the Company pays the Manager a monthly management fee in an amount equal to 1/12th of 1.05% of stockholders' equity, as defined in the Management Agreement, for its management services. For the year ended December 31, 2014 and 2013, the compensation and management fee was $155.6 million (includes $24.2 million related to compensation expense for the employees of the Company's subsidiaries) and $167.4 million (includes $49.2 million related to compensation expense for the employees of the Company's subsidiaries). At December 31, 2014 and 2013, the Company had amounts payable to the Manager of $11.0 million and $16.2 million, respectively.

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The Management Agreement provides for a two year term ending December 31, 2016 with automatic two-year renewals unless at least two-thirds of the Company's independent directors or the holders of a majority of the Company's outstanding shares of common stock elect to terminate the agreement in their sole discretion and for any or no reason. At any time during the term or any renewal term the Company may deliver to the Manager written notice of the Company's intention to terminate the Management Agreement. The Company must designate a date not less than one year from the date of the notice on which the Management Agreement will terminate. The Management Agreement also provides that the Manager may terminate the Management Agreement by providing to the Company prior written notice of its intention to terminate the Management Agreement no less than one year prior to the date designated by the Manager on which the Manager would cease to provide services or such earlier date as determined by the Company in its sole discretion.

Effective July 1, 2013, a majority of the Company's employees were terminated by the Company and were hired by the Manager. The Company has a limited number of employees following the Externalization, all of whom are employees of the Company's subsidiaries for regulatory or corporate efficiency reasons. All compensation expenses associated with such retained employees reduce the management fee. Pursuant to a pro forma calculation that computed the management fee as though it was in effect beginning January 1, 2013, the Company paid the Manager an amount equal to the pro forma calculation minus the actual compensation paid to the Company's and its subsidiaries' employees from January 1, 2013 to June 30, 2013.

The Management Agreement may be amended or modified by agreement between the Company and the Manager. There is no termination fee for a termination of the Management Agreement by either the Company or the Manager.

Other

During the year ended December 31, 2014, the Company made a one-time payment totaling $23.8 million to Chimera to resolve issues raised in derivative demand letters sent to Chimera's board of directors. This amount is included as a component of Other income (loss) in the Company's Consolidated Statements of Comprehensive Income (Loss).

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21. SUMMARIZED QUARTERLY RESULTS (UNAUDITED)

The following is a presentation of summarized quarterly results of operations for the years ended December 31, 2014 and 2013.

	For the Quarters Ended			
	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014
	(dollars in thousands, expect per share data)			
Interest income	$ 648,144	$ 644,640	$ 683,962	$ 655,901
Interest expense	134,512	127,069	126,107	124,971
Net interest income	513,632	517,571	557,855	530,930
Total other income (loss)	(1,113,659)	(109,013)	(842,030)	(682,902)
Less: Total general and administrative expenses	58,454	51,317	52,189	47,378
Income before income taxes	(658,481)	357,241	(336,364)	(199,350)
Less: Income taxes	(209)	2,385	(852)	4,001
Net income (loss)	(658,272)	354,856	(335,512)	(203,351)
Less: Net income attributable to noncontrolling interest	(196)	-	-	-
Less: Dividends on preferred stock	17,992	17,992	17,992	17,992
Net income (loss) available (related) to common stockholders	$ (676,068)	$ 336,864	$ (353,504)	$ (221,343)
Net income (loss) available (related) per share to common stockholders:				
Basic	$ (0.71)	$ 0.36	$ (0.37)	$ (0.23)
Diluted	$ (0.71)	$ 0.35	$ (0.37)	$ (0.23)

	For the Quarters Ended			
	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013
	(dollars in thousands, expect per share data)			
Interest income	$ 771,249	$ 697,160	$ 712,936	$ 737,217
Interest expense	137,393	145,476	164,255	177,590
Net interest income	633,856	551,684	548,681	559,627
Total other income (loss)	452,944	(299,925)	1,154,755	368,370
Less: Total general and administrative expenses	56,294	58,744	65,131	51,912
Income before income taxes	1,030,506	193,015	1,638,305	876,085

Less: Income taxes	1,757	557	92	5,807
Net income (loss)	1,028,749	192,458	1,638,213	870,278
Less: Dividends on preferred stock	17,992	17,992	17,992	17,992
Net income (loss) available (related) to common stockholders	$ 1,010,757	$ 174,466	$ 1,620,221	$ 852,286
Net income (loss) available (related) per share to common stockholders:				
Basic	$ 1.07	$ 0.18	$ 1.71	$ 0.90
Diluted	$ 1.03	$ 0.18	$ 1.64	$ 0.87

SCHEDULE III

Schedule III - Real Estate and Accumulated Depreciation

December 31, 2014

(dollars in thousands)

			Initial Cost to Company		Cost Capitalized Subsequent to Acquisition		Gross Amounts Carried at Close of Period 12/31/14				
Location	Number of Properties	Encumbrances	Land	Buildings and Improvements	Improvements	Capitalized Costs	Land	Buildings and Improvements	Total	Accumulated Depreciation	Yea Constr
Industrial - Phoenix - AZ	2	$16,600	$6,011	$27,046	$-	$-	$6,011	$27,046	$33,057	$(1,836)	1997-1
Industrial - Las Vegas - NV	1	2,505	628	4,053	-	-	628	4,053	4,681	(210)	1988
Retail - Knoxville - TN	1	12,350	3,503	13,309	-	-	3,503	13,309	16,812	(331)	2002
Retail - Newport News - VA	1	11,025	6,394	12,046	-	-	6,394	12,046	18,440	(245)	1994
Retail - Amherst - NY	1	8,270	2,131	9,740	-	-	2,131	9,740	11,871	(127)	1986
Retail - Cheektowaga - NY	1	9,447	1,961	12,259	-	-	1,961	12,259	14,220	(180)	1978
Retail - Jamestown - NY	1	7,356	820	4,915	-	-	820	4,915	5,735	(123)	1997
Retail - Penfield - NY	1	23,558	4,121	22,413	-	-	4,121	22,413	26,534	(341)	1978
Retail - Loganville - GA	1	7,230	3,217	8,386	-	-	3,217	8,386	11,603	(92)	1996
Retail - Chillicothe - OH	1	7,887	1,262	10,819	-	-	1,262	10,819	12,081	(102)	1981
Retail - Irondequoit - NY	1	15,000	2,438	14,684	-	-	2,438	14,684	17,122	(193)	1972
	1	12,888	4,204	20,617	-	-	4,204	20,617	24,821	(264)	1997, 2

Retail - Orchard Park - NY											
Retail - LeRoy - NY	1	3,492	374	4,922	-	-	374	4,922	5,296	(62)	1997
Retail - Ontario - NY	1	5,406	575	6,813	-	-	575	6,813	7,388	(72)	1998
Retail - Warsaw - NY	1	3,416	478	4,117	-	-	478	4,117	4,595	(46)	1998
	16	$146,430	$38,117	$176,139	$0.00	$0.00	$38,117	$176,139	$214,256	$(4,224)	

The following table presents our real estate activity during the year ended December 31, 2014 (in thousands):

Beginning balance, January 1, 2014	$60,132
Additions during the year:	
Acquisitions	176,519
Total additions	176,519
Deductions during the year:	
Carrying value of real estate sold	23,270
Depreciation	3,349
Total deductions	26,619
Ending balance, December 31, 2014	$210,032

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SCHEDULE IV

Schedule IV - Mortgage Loans on Real Estate

December 31, 2014

(dollars in thousands)

Description	Location	Prior Liens (1)	Face Amount	Carrying Amount	Interest Rate (2)	Libor Floor	Payment Terms	Maturity Date (3)	Months to Open Period (2% Penalty or Less)
First Mortgages:									
Office	CA	$-	$65,000	$64,501	LIBOR+3.00%	0.25%	Interest Only	3/1/2019	8
Multi-Family	FL	-	26,000	26,000	LIBOR+4.50%	0.25%	Interest Only	5/9/2019	5
Multi-Family	CA	-	13,000	12,951	LIBOR+4.70%	0.20%	Interest Only	8/1/2019	3
Office	FL	-	12,166	12,015	EURIBOR+5.00%	N/A	Interest Only	12/6/2019	11
Multi-Family	CA	-	8,000	7,970	LIBOR+4.70%	0.20%	Interest Only	8/1/2019	7
Mixed	NY	-	230,000	230,000	10.00 %	N/A	Interest Only	6/30/2015	0
Retail (4)	CO	13,931	17,164	17,485	5.58 %	N/A	Amortizing	5/1/2017	23
Panoramic View	NY	-	12,973	12,973	Non-accrual	N/A	IO/Sellout	12/1/2013	0
First Mortgages - Securitized:									
Multi-Family	IL	-	115,000	114,780	LIBOR+4.10%	0.20%	Interest Only	11/1/2017	0
Hotel	CO	-	51,000	50,964	LIBOR+5.45%	0.25%	Interest Only	11/9/2018	3
Multi-Family	AZ	-	48,685	48,462	LIBOR+5.00%	0.25%	Interest Only	1/1/2018	6
Industrial	TX	-	46,500	46,432	LIBOR+5.40%	1.00%	Interest Only	8/10/2017	0
Office	OH	-	38,270	38,221	LIBOR+5.50%	0.25%	Interest Only	8/9/2018	1
Retail	IN	-	37,680	37,680	LIBOR+5.75%	0.92%	Interest Only	11/9/2016	0
Hotel	GA	-	20,156	20,051	LIBOR+4.95%	0.20%	Interest Only	8/9/2018	0
Office	OK	-	17,500	17,476	LIBOR+5.75%	0.25%	Interest Only	9/6/2018	0
Hotel	LA	-	15,500	15,379	LIBOR+5.75%	1.00%	Interest Only	8/9/2018	14

Hotel	LA	-	9,250	9,189	LIBOR+6.5%	0.25%	Interest Only	10/1/2018	15
Mezzanine Loans:									
Retail	Various	387,161	86,067	86,506	11.25 %	N/A	Amortizing	4/10/2017	25
Office	Various	575,522	65,968	65,929	LIBOR+8.75%	0.75%	Interest Only	1/20/2017	4
Industrial	Various	100,000	50,000	49,928	8.11 %	N/A	Interest Only	6/28/2022	6
Retail	Various	574,600	43,900	43,945	7.71 %	N/A	Amortizing	12/1/2015	0
Mixed	OH	137,250	37,400	37,400	9.50 %	N/A	Interest Only	11/22/2023	59
Hotel	Various	175,000	25,000	25,034	LIBOR+9.95%	0.20%	Interest Only	2/14/2019	25
Office	NY	157,449	18,000	18,041	11.15 %	N/A	Interest Only	9/6/2021	69
Hotel	NY	49,051	16,677	16,677	LIBOR+9.83%	1.00%	Interest Only	9/8/2015	0
Office	GA	50,604	15,483	15,452	12.17 %	N/A	Interest Only	4/9/2015	0
Hotel	NY	65,728	12,753	12,753	LIBOR+11.61%	1.00%	Interest Only	9/8/2015	0
Hotel	Various	50,525	12,375	12,408	LIBOR+8.65%	0.16%	Interest Only	8/9/2019	1
Office	CA	-	11,473	11,419	LIBOR+26.33%	0.25%	Interest Only	3/1/2019	14
Office	MD	56,280	10,130	10,091	11.20 %	N/A	Interest Only	8/1/2017	26
Office	MD	55,547	9,942	9,904	11.70 %	N/A	Interest Only	8/1/2017	26
Retail	MA	64,500	10,000	10,000	10.00 %	N/A	Interest Only	9/6/2023	21
Hotel	CA	50,000	10,000	10,000	10.25 %	N/A	Interest Only	2/6/2019	46
Office	NY	62,000	10,000	9,977	10.00 %	N/A	Interest Only	10/6/2018	22
Office	TX	43,500	9,187	9,122	9.50 %	N/A	Interest Only	9/1/2018	24
Office	GA	56,833	9,000	9,000	11.00 %	N/A	Interest Only	7/10/2015	0
Office	LA	64,000	8,700	8,700	10.75 %	N/A	Interest Only	10/29/2023	46
Office	CA	45,300	8,700	8,760	LIBOR+9.50%	0.25%	Interest Only	3/31/2019	13
Multi-Family	OH	83,549	8,300	8,236	10.25 %	N/A	Interest Only	12/1/2022	16
Hotel	CA	42,872	8,000	8,031	12.25 %	N/A	Interest Only	4/1/2017	3
Office	TX	52,000	7,000	7,000	10.10 %	N/A	Interest Only	12/1/2024	35
Office	CO	13,750	6,000	6,000	11.06 %	N/A	Interest Only	8/6/2018	7

Hotel	LA	-	5,000	5,000	13.50	%	N/A	Interest Only	8/9/2018	14
Office	TX	72,069	7,418	7,418	10.25	%	N/A	Interest Only	8/1/2018	19
Preferred Equity:										
Multi-Family	CA	361,304	83,385	82,767	10.00	%	N/A	Interest Only	9/16/2020	9
Multi-Family	CA	70,468	31,500	31,266	10.00	%	N/A	Interest Only	9/16/2020	9
Condo	NY	181,000	51,000	50,688	12.00	%	N/A	Interest Only	11/21/2018	0
Multi-Family	MD	371,420	39,770	39,253	11.00	%	N/A	Interest Only	8/1/2022	56
Mixed	PA	26,000	9,000	8,931	11.00	%	N/A	Interest Only	11/27/2018	11
		$4,109,213	$1,520,972	$1,518,165						

(1) Represents third-party priority liens.
(2) LIBOR represents the one month London Interbank Offer Rate, EURIBOR represents the one month Eurodollar deposit rate.
(3) Assumes all extension options are exercised.
(4) Includes senior position sold to third party that did not qualify for GAAP sale accounting. The Company's economic interest is limited to a B-Note with an outstanding face of $3.8 million and a basis of approximately $1.9 million.

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ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
Signatures

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of New York, State of New York.

ANNALY CAPITAL MANAGEMENT, INC.

Date: February 26, 2015

By: /s/ Wellington J. Denahan
Wellington J. Denahan
(Chief Executive Officer, and authorized officer of registrant)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature	Title	Date
/s/ Wellington J. Denahan Wellington J. Denahan	Chairman of the board of directors and Chief Executive Officer (principal executive officer)	February 26, 2015
/s/ Glenn A. Votek Glenn A. Votek	Chief Financial Officer (principal financial officer of the registrant)	February 26, 2015
/s/ Kevin P. Brady Kevin P. Brady	Director	February 26, 2015
/s/ Francine J. Bovich Francine J. Bovich	Director	February 26, 2015
/s/ Jonathan D. Green Jonathan D. Green	Director	February 26, 2015
/s/ Michael E. Haylon Michael E. Haylon	Director	February 26, 2015
/s/ Kevin G. Keyes Kevin G. Keyes	President and Director	February 26, 2015
/s/ E. Wayne Nordberg E. Wayne Nordberg	Director	February 26, 2015
/s/ John H. Schaefer John H. Schaefer	Director	February 26, 2015

/s/ Donnell A. Segalas Donnell A. Segalas	Director	February 26, 2015

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