ANNALY CAPITAL MANAGEMENT INC
Form 10-Q
November 06, 2015

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, 2015

OR

[ ] 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: 1-13447

ANNALY CAPITAL MANAGEMENT, INC.
(Exact name of registrant as specified in its charter)

MARYLAND	22-3479661
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
1211 AVENUE OF THE AMERICAS NEW YORK, NEW YORK	10036
(Address of principal executive offices)	(Zip Code)

(212) 696-0100
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all documents and 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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the last practicable date:

Class	Outstanding at October 30, 2015
Common Stock, $.01 par value	947,835,514

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2015 (Unaudited)	December 31, 2014(1)
ASSETS		
Cash and cash equivalents (including cash pledged as collateral of $2,098,919 and $1,584,701, respectively)	$2,237,423	$1,741,244
Reverse repurchase agreements	-	100,000
Investments, at fair value:		
Agency mortgage-backed securities (including pledged assets of $59,721,331 and $74,006,480, respectively)	65,806,640	81,565,256
Agency debentures (including pledged assets of $97,463 and $1,368,350, respectively)	413,115	1,368,350
Credit risk transfer securities (including pledged assets of $101,908 and $0, respectively)	330,727	-
Non-Agency mortgage-backed securities (including pledged assets of $332,034 and $0, respectively)	490,037	-
Commercial real estate debt investments (including pledged assets of $2,881,659 and $0, respectively) (2)	2,881,659	-
Investment in affiliate	-	143,045
Commercial real estate debt and preferred equity, held for investment (including pledged assets of $220,390 and $0, respectively) (3)	1,316,595	1,518,165
Loans held for sale	476,550	-
Investments in commercial real estate	301,447	210,032
Corporate debt	424,974	166,464
Receivable for investments sold	127,571	1,010,094
Accrued interest and dividends receivable	228,169	278,489
Receivable for investment advisory income (including from affiliate of $3,992 and $10,402, respectively)	3,992	10,402
Goodwill	71,815	94,781
Interest rate swaps, at fair value	39,295	75,225
Other derivatives, at fair value	87,516	5,499
Other assets	101,162	68,321
Total assets	$75,338,687	$88,355,367
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		

Repurchase agreements	56,449,364	71,361,926
Other secured financing	359,970	-
Convertible Senior Notes	-	845,295
Securitized debt of consolidated VIEs (4)	2,553,398	260,700
Mortgages payable	166,697	146,553
Participation sold	13,389	13,693
Payable for investments purchased	744,378	264,984
Accrued interest payable	145,554	180,501
Dividends payable	284,348	284,293
Interest rate swaps, at fair value	2,160,350	1,608,286
Other derivatives, at fair value	113,626	8,027
Accounts payable and other liabilities	63,280	47,328
Total liabilities	63,054,354	75,021,586
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, 947,826,176 and 947,643,079 issued and outstanding, respectively	9,478	9,476
Additional paid-in capital	14,789,320	14,786,509
Accumulated other comprehensive income (loss)	262,855	204,883
Accumulated deficit	(3,695,884)	(2,585,436)
Total stockholders' equity	12,278,828	13,328,491
Noncontrolling interest	5,505	5,290
Total equity	12,284,333	13,333,781
Total liabilities and equity	$75,338,687	$88,355,367

(1) Derived from the audited consolidated financial statements at December 31, 2014.

(2) Includes senior securitized commercial mortgage loans of consolidated VIEs carried at fair value of $2.6 billion and $0 at September 30, 2015 and December 31, 2014, respectively.

(3) Includes senior securitized commercial mortgage loans of a consolidated VIE with a carrying value of $314.9 million and $398.6 million carried at amortized cost, net of an allowance for losses of $0, at September 30, 2015 and December 31, 2014.

(4) Includes securitized debt of consolidated VIEs carried at fair value of $2.4 billion and $0 at September 30, 2015 and December 31, 2014, respectively.

See notes to consolidated financial statements.

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ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
Item 1. Financial Statements

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net interest income:				
Interest income	$450,792	$644,640	$1,594,310	$1,984,503
Interest expense	110,297	127,069	352,789	378,147
Net interest income	340,495	517,571	1,241,521	1,606,356
Realized and unrealized gains (losses):				
Realized gains (losses) on interest rate swaps(1)	(162,304)	(169,083)	(465,008)	(650,452)
Realized gains (losses) on termination of interest rate swaps	-	-	(226,462)	(779,333)
Unrealized gains (losses) on interest rate swaps	(822,585)	98,593	(587,995)	(75,287)
Subtotal	(984,889)	(70,490)	(1,279,465)	(1,505,072)
Net gains (losses) on disposal of investments	(7,943)	4,693	58,246	90,296
Net gains (losses) on trading assets	108,175	4,676	(12,961)	(188,041)
Net unrealized gains (losses) on financial instruments measured at fair value through earnings	(24,501)	(37,944)	(40,466)	(56,652)
Impairment of goodwill	-	-	(22,966)	-
Subtotal	75,731	(28,575)	(18,147)	(154,397)
Total realized and unrealized gains (losses)	(909,158)	(99,065)	(1,297,612)	(1,659,469)
Other income (loss):				
Investment advisory income	3,780	8,253	24,848	20,485
Dividend income from affiliate	-	4,048	8,636	21,141
Other income (loss)	(13,521)	(22,249)	(36,947)	(16,102)
Total other income (loss)	(9,741)	(9,948)	(3,463)	25,524
General and administrative expenses:				
Compensation and management fee	37,450	39,028	113,093	116,826
Other general and administrative expenses	12,007	12,289	39,311	34,058
Total general and administrative expenses	49,457	51,317	152,404	150,884
Income (loss) before income taxes	(627,861)	357,241	(211,958)	(178,473)
Income taxes	(370)	2,385	(8,039)	5,534
Net income (loss)	(627,491)	354,856	(203,919)	(184,007)
Net income (loss) attributable to noncontrolling interest	(197)	-	(436)	-
Net income (loss) attributable to Annaly	(627,294)	354,856	(203,483)	(184,007)
Dividends on preferred stock	17,992	17,992	53,976	53,976

Net income (loss) available (related) to common stockholders	$(645,286)	$336,864	$(257,459)	$(237,983)
Net income (loss) per share available (related) to common stockholders:				
Basic	$(0.68)	$0.36	$(0.27)	$(0.25)
Diluted	$(0.68)	$0.35	$(0.27)	$(0.25)
Weighted average number of common shares outstanding:				
Basic	947,795,500	947,565,432	947,732,735	947,513,514
Diluted	947,795,500	987,315,527	947,732,735	947,513,514
Dividends declared per share of common stock	$0.30	$0.30	$0.90	$0.90
Net income (loss)	$(627,491)	$354,856	$(203,919)	$(184,007)
Other comprehensive income (loss):				
Unrealized gains (losses) on available-for-sale securities	609,725	(390,871)	116,154	1,872,427
Reclassification adjustment for net (gains) losses included in net income (loss)	8,095	(4,693)	(58,182)	(91,314)
Other comprehensive income (loss)	617,820	(395,564)	57,972	1,781,113
Comprehensive income (loss)	$(9,671)	$(40,708)	$(145,947)	$1,597,106
Comprehensive income (loss) attributable to noncontrolling interest	(197)	-	(436)	-
Comprehensive income (loss) attributable to Annaly	(9,474)	(40,708)	(145,511)	1,597,106
Dividends on preferred stock	17,992	17,992	53,976	53,976
Comprehensive income (loss) attibutable to common stockholders	$(27,466)	$(58,700)	$(199,487)	$1,543,130

(1) Consists of interest expense on interest rate swaps.

See notes to consolidated financial statements.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
Item 1. Financial Statements

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(dollars in thousands, except per share data)
(Unaudited)

	7.875% Series A Cumulative Redeemable Preferred Stock	7.625% Series C 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	Noncontro intere
BALANCE, December 31, 2013	$177,088	$290,514	$445,457	$9,474	$14,765,761	$(2,748,933)	$(534,306)	$12,405,055	$-
Net income (loss) attributable to Annaly	-	-	-	-	-	-	(184,007)	(184,007)	-
Unrealized gains (losses) on available-for-sale securities	-	-	-	-	-	1,872,427	-	1,872,427	-
Reclassification adjustment for net (gains) losses included in net income (loss)	-	-	-	-	-	(91,314)	-	(91,314)	-
Stock compensation expense	-	-	-	-	998	-	-	998	-
Net proceeds from direct purchase and dividend reinvestment	-	-	-	2	1,784	-	-	1,786	-
Contingent beneficial conversion feature on 4% Convertible Senior Notes	-	-	-	-	12,765	-	-	12,765	-
Preferred Series A dividends, declared $1.477 per share	-	-	-	-	-	-	(10,944)	(10,944)	-
Preferred Series C dividends,	-	-	-	-	-	-	(17,157)	(17,157)	-

declared $1.430 per share									
Preferred Series D dividends, declared $1.406 per share	-	-	-	-	-	-	(25,875)	(25,875)	-
Common dividends declared, $0.90 per share	-	-	-	-	-	-	(852,786)	(852,786)	-
BALANCE, September 30, 2014	$177,088	$290,514	$445,457	$9,476	$14,781,308	$(967,820)	$(1,625,075)	$13,110,948	$-
BALANCE, December 31, 2014	$177,088	$290,514	$445,457	$9,476	$14,786,509	$204,883	$(2,585,436)	$13,328,491	$5,29
Net income (loss) attributable to Annaly	-	-	-	-	-	-	(203,483)	(203,483)	-
Net income (loss) attributable to noncontrolling interest	-	-	-	-	-	-	-	-	(436
Unrealized gains (losses) on available-for-sale securities	-	-	-	-	-	116,154	-	116,154	-
Reclassification adjustment for net (gains) losses included in net income (loss)	-	-	-	-	-	(58,182)	-	(58,182)	-
Stock compensation expense	-	-	-	-	1,089	-	-	1,089	-
Net proceeds from direct purchase and dividend reinvestment	-	-	-	2	1,722	-	-	1,724	-
Equity contributions from (distributions to) noncontrolling interest	-	-	-	-	-	-	-	-	651
Preferred Series A dividends, declared $1.477 per share	-	-	-	-	-	-	(10,944)	(10,944)	-
	-	-	-	-	-	-	(17,157)	(17,157)	-

Preferred Series C dividends, declared $1.430 per share									
Preferred Series D dividends, declared $1.406 per share	-	-	-	-	-	-	(25,875)	(25,875)	-
Common dividends declared, $0.90 per share	-	-	-	-	-	-	(852,989)	(852,989)	-
BALANCE, September 30, 2015	$177,088	$290,514	$445,457	$9,478	$14,789,320	$262,855	$(3,695,884)	$12,278,828	$5,50

See notes to consolidated financial statements.

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ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
Item 1. Financial Statements

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

	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net income (loss)	$ (203,919)	$ (184,007)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Amortization of Investment Securities premiums and discounts, net	633,937	466,338
Amortization of commercial real estate investment premiums and discounts, net	(1,080)	607
Amortization of intangibles	5,095	445
Amortization of deferred financing costs	5,192	8,023
Amortization of net origination fees and costs, net	(3,350)	(3,337)
Amortization of contingent beneficial conversion feature and equity component of Convertible Senior Notes	12,246	24,128
Depreciation expense	8,773	1,264
Net gain on sale of commercial real estate	-	(2,748)
Net loss on sale of commercial real estate debt held for investment	100	-
Net (gains) losses on sales of Investment Securities	(70,796)	(91,314)
Net (gain) loss on sale of investment in affiliate	12,450	-
Stock compensation expense	1,089	998
Impairment of goodwill	22,966	-
Unrealized (gains) losses on interest rate swaps	587,995	75,287
Net unrealized (gains) losses on financial instruments measured at fair value through earnings	40,466	56,652
Equity in net income from unconsolidated joint venture	414	-
Net (gains) losses on trading assets	12,961	188,041
Proceeds from repurchase agreements of RCap	1,447,650,000	747,790,774
Payments on repurchase agreements of RCap	(1,452,000,000)	(742,842,907)
Proceeds from reverse repurchase agreements	39,875,000	60,698,578
Payments on reverse repurchase agreements	(39,775,000)	(60,598,578)
Proceeds from securities borrowed	-	23,888,955
Payments on securities borrowed	-	(21,306,062)
Proceeds from securities loaned	-	41,939,298
Payments on securities loaned	-	(44,466,959)
Proceeds from U.S. Treasury securities	-	3,159,253
Payments on U.S. Treasury securities	-	(3,920,425)
Net payments on derivatives	7,288	(98,704)

Net change in:		
Due to / from brokers	-	8,596
Other assets	(29,324)	(2,011)
Accrued interest and dividends receivable	52,057	(27,362)
Receivable for investment advisory income	6,410	(1,530)
Accrued interest payable	(34,947)	34,733
Accounts payable and other liabilities	17,417	2,958
Net cash provided by (used in) operating activities	(3,166,560)	4,798,984
Cash flows from investing activities:		
Payments on purchases of Investment Securities	(13,172,943)	(27,898,595)
Proceeds from sales of Investment Securities	22,081,011	15,529,556
Principal payments on Agency mortgage-backed securities	7,811,368	5,945,647
Proceeds from sale of investment in affiliate	126,402	-
Payments on purchases of corporate debt	(301,739)	(114,183)
Principal payments on corporate debt	43,846	88,078
Purchases of commercial real estate debt investments	(368,511)	-
Sales of commercial real estate debt investments	41,016	-
Purchase of securitized loans at fair value	(2,574,353)	-
Origination of commercial real estate investments, net	(826,877)	(206,849)
Proceeds from sale of commercial real estate investments	227,450	-
Principal payments on commercial real estate debt investments	10,170	-
Proceeds from sales of commercial real estate held for sale	-	26,019
Principal payments on commercial real estate investments	327,936	237,796
Purchase of investments in real estate	(29,900)	(36,743)
Investment in unconsolidated joint venture	(70,602)	-
Purchase of equity securities	(27,519)	-
Proceeds from sale of equity securities	13,119	-
Net cash provided by (used in) investing activities	13,309,874	(6,429,274)

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
Item 1. Financial Statements

Cash flows from financing activities:		
Proceeds from repurchase agreements	156,196,644	147,564,412
Principal payments on repurchase agreements	(166,759,206)	(144,682,558)
Payments on maturity of convertible senior notes	(857,541)	-
Proceeds from other secured financing	687,935	-
Payments on other secured financing	(327,965)	-
Proceeds from issuance of securitized debt	2,382,810	260,700
Principal repayments on securitized debt	(84,560)	-
Principal repayments on securitized loans	201	-
Payment of deferred financing cost	(886)	(4,288)
Net proceeds from direct purchases and dividend reinvestments	1,724	1,785
Proceeds from mortgages payable	20,450	23,375
Principal payments on participation sold	(220)	(207)
Principal payments on mortgages payable	(262)	(30)
Contributions from noncontrolling interests	1,107	-
Distributions to noncontrolling interests	(456)	-
Dividends paid	(906,910)	(906,714)
Net cash provided by (used in) financing activities	(9,647,135)	2,256,475
Net (decrease) increase in cash and cash equivalents	496,179	626,185
Cash and cash equivalents, beginning of period	1,741,244	552,436
Cash and cash equivalents, end of period	$2,237,423	$1,178,621
Supplemental disclosure of cash flow information:		
Interest received	$2,241,301	$2,454,211
Dividends received	$12,684	$21,141
Investment advisory income received	$31,258	$18,955
Interest paid (excluding interest paid on interest rate swaps)	$314,568	$370,784
Net interest paid on interest rate swaps	$450,750	$640,316
Taxes paid	$1,926	$6,925
Noncash investing activities:		
Receivable for investments sold	$127,571	$855,161
Payable for investments purchased	$744,378	$2,153,789
Net change in unrealized gains (losses) on available-for-sale securities, net of reclassification adjustment	$57,972	$1,781,113
Noncash financing activities:		
Dividends declared, not yet paid	$284,348	$284,278
Contingent beneficial conversion feature on 4% Convertible Senior Notes	$-	$12,765

See notes to consolidated financial statements.

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ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
Item 1. Financial Statements

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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 debentures, credit risk transfer ("CRT") securities, 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 both Agency and non-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.
- 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.
- 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 managed an affiliated

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").

The accompanying consolidated financial statements and related notes are unaudited and should be read in conjunction with the audited consolidated financial statements included in the Company's most recent annual report on Form 10-K. The consolidated financial information as of December 31, 2014 has been derived from audited consolidated financial statements not included herein.

In the opinion of management, all normal, recurring adjustments have been included for a fair presentation of this interim financial information. Interim period operating results may not be indicative of the operating results for a full year.

3. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation – The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries and consolidated variable interest entities. All intercompany balances and transactions have been eliminated in consolidation. The Company reclassified previously presented financial information so that amounts previously presented conform to the current presentation.

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 real estate investment trust (“REIT”) for which it earned fee income.

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

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.

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 applies significant judgment and considers all of its economic interests, including debt and equity investments and other arrangements deemed to be variable interests, both explicit and implicit, 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, cash held in money market funds on an overnight basis and cash pledged as collateral with counterparties. Cash 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

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 Statements.

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

Agency Mortgage-Backed Securities, Agency Debentures, Non-Agency Mortgage-Backed Securities and CRT Securities – 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, as well as CRT securities. CRT securities are risk sharing instruments issued by Fannie Mae and Freddie Mac, and similarly structured transactions arranged by third party market participants. CRT securities are designed to synthetically transfer mortgage credit risk from Fannie Mae and Freddie Mac to private investors. The Company also invests in non-Agency mortgage-backed securities such as those issued in non-performing loan and re-performing loan securitizations.

Agency mortgage-backed securities, Agency debentures, non-Agency mortgage-backed securities and CRT securities 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 interest rate swaps and other derivatives. 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 and collateral held in the form of cash on margin with counterparties to the Company's interest rate swaps and other derivatives totaled approximately $2.1 billion and $1.6 billion at September 30, 2015 and December 31, 2014, respectively.

Securities as part of the overall management of its portfolio. Investment Securities classified as available-for-sale are reported at fair value with unrealized gains and losses reported as a component of other comprehensive income (loss). The fair value of Investment Securities classified as available-for-sale are estimated by management and are compared to independent sources for reasonableness. Investment Securities transactions are recorded on trade date, including TBA securities that meet the regular-way securities scope exception from derivative accounting.

The Company previously changed its accounting policy for determining the realized gains and losses on sales of Investment Securities from the average cost method to the specific identification method. The Company determined that the specific identification method was preferable because it more accurately matches gains or losses with costs and is the methodology predominantly used by its industry peers, among other considerations. The impact of the change was immaterial to the consolidated financial statements and prior periods.

The Company elected the fair value option for interest-only mortgage-backed securities, non-Agency mortgage-backed securities and certain CRT securities. Interest-only securities and inverse interest-only securities are collectively referred to as “interest-only securities.” These interest-only mortgage-backed securities represent the Company’s right to receive a specified proportion of the contractual interest flows of specific mortgage-backed securities. Interest-only mortgage-backed securities, non-Agency mortgage-backed securities and certain CRT securities are measured at fair value with changes in fair value recorded as Net unrealized gains (losses) on financial instruments measured at fair value through earnings 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. In addition, the Company recognizes income under the retrospective method on substantially all of its Investment Securities classified as available-for-sale. Premiums and discounts associated with the purchase of Investment Securities are amortized or accreted into income over the remaining projected lives of the securities. Using a third-party supplied model and market information to project future cash flows and expected remaining lives of securities, the effective interest rate determined for each security is applied as if it had been in place from the security’s

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 without intent to accept delivery (“TBA derivatives”), options on TBA securities (“MBS options”) and U.S. Treasury and Eurodollar futures contracts. The Company may also 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.

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.

acquisition. The amortized cost of the investment is then adjusted to the amount that would have existed had the new effective yield been applied since the acquisition. The adjustment to amortized cost is offset with a charge or credit to interest income. Changes in interest rates and other market factors will impact prepayment speed projections.

Corporate Debt – The Company's investments in corporate debt that are loans are designated as held for investment, and those that are debt securities are designated as held to maturity when the Company has the intent and ability to hold the investment until maturity or payoff. These investments are carried at their principal balance outstanding plus any premiums or discounts less allowances for loan losses (or other-than-temporary impairment). No allowance for loan losses or other-than temporary impairment was recognized as of September 30, 2015 and December 31, 2014. Interest income from coupon payments is accrued based upon the outstanding principal amounts of the debt and its contractual terms. Premiums and discounts are amortized or accreted into interest income using the interest method.

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.

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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.

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 that 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 income (loss). There was no other-than-temporary impairment recognized for the quarters and nine months ended September 30, 2015 and 2014.

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 September 30, 2015 and December 31, 2014.

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.

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 as operating activities in the Consolidated Statements of Cash Flows.

Goodwill and Intangible Assets – The Company's acquisitions are accounted for using the acquisition method. 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 are 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 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

A Conversion Feature may be recognized as a result of adjustments to the conversion price for dividends declared to common stockholders. The 4% and 5% Convertible Senior Notes matured in February 2015 and May 2015, respectively.

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 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 September 30, 2015 and December 31, 2014.

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 exceeds its fair value. An impairment of the goodwill associated with the Company's acquisition of FIDAC was recorded in the nine months ended September 30, 2015.

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

Convertible Senior Notes – The Company recorded 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.

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 Debt Investments - The Company's commercial real estate debt investments are comprised of commercial mortgage backed securities and loans held by consolidated collateralized financing entities. Commercial mortgage backed securities are classified as available-for-sale and reported at fair value with unrealized gains and losses reported as a component of other comprehensive income (loss). Management evaluates commercial mortgage backed securities for other-than-temporary impairment at least quarterly. See the Commercial Real Estate Investment footnote for additional information regarding the consolidated collateralized financing entities.

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Commercial Real Estate Loans – The Company's commercial real estate loans are comprised of fixed-rate and adjustable-rate loans. The Company designates loans as held for investment if it has the intent and ability to hold the loans until maturity or payoff. If the Company intends to sell or securitize the loans and the securitization vehicle is not expected to be consolidated, they are classified as held for sale. Commercial real estate loans that are designated as held for investment and are originated or purchased by the Company 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. Commercial real estate loans that are designated as held for sale are carried at the lower of amortized cost or fair value and recorded as Loans held for sale in the accompanying Consolidated Statements of Financial Condition. The Company determines the fair value of commercial real estate loans held for sale on an individual loan basis. 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, where required by US GAAP, over the estimated life of the loan. The Company has elected the fair value option for multi-family mortgage loans held in securitization trusts that it was required to consolidate. Interest income is recognized as earned determined by the stated coupon and outstanding principal balance. See "Commercial Real Estate Investments" footnote for additional information.

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

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 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.

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

Equity Investments”).

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.

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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/or for which there is an increased potential for default. 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	31 - 40 years
Site improvements	1 - 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.

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, that 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.

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

The Company applies the equity method of accounting for its investments in joint ventures where it is not considered to have a controlling financial interest. Under the equity method of accounting, the Company will recognize its share of earnings or losses of the investee in the period in which they are reported by the investee. The Company also considers whether there are any indicators of other-than-temporary impairment of joint ventures accounted for under the equity method.

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

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 settlement 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 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.

Recent Accounting Pronouncements

The following table provides a brief description of recent accounting pronouncements that could potentially impact 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 2015-16 Business Combinations (Topic 805) Simplifying the Accounting Measurement-Period Adjustments	This amendment removes the requirement to present adjustments to provisional amounts retrospectively. The update requires that an acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to provisional amounts.	January 1, 2016 (early adoption permitted)	Not expected to have a significant impact on the consolidated financial statements.
ASU 2015-10, Technical Corrections and Improvements	This perpetual project updates the Codification for technical corrections and improvements.	January 1, 2016 (early adoption permitted), for amendments subject to transition guidance	Not expected to have a significant impact on the consolidated financial statements.
ASU 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)	This update removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient and also removes certain disclosure requirements for these investments.	January 1, 2016 (early adoption permitted)	Not expected to have an impact on the consolidated financial statements.
ASU 2015-05, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement	This update clarifies that customers should determine whether a cloud computing arrangement includes the license of software by applying the same guidance cloud service providers use. The guidance also eliminates the current requirement that customers analogize to the leasing standard when determining the asset acquired in a software licensing arrangement.	January 1, 2016 (early adoption permitted)	Not expected to have a significant impact on the consolidated financial statements.
ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs	This ASU requires that debt issue costs are presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. The recognition and measurement of debt issue costs are not affected.	January 1, 2016 (early adoption permitted)	Impacts presentation only and will not have a significant impact on the consolidated financial statements.

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 statements are issued.	January 1, 2017 (early adoption permitted)	Not expected to have an 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, 2018	Not expected to have a significant impact on the consolidated financial statements.

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Standard	Description	Date of Adoption	Effect on the financial statements or other significant matters
Standards that were adopted			
ASU 2015-15, Interest - Imputation of Interest (Subtopic 835-30) Simplifying the Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements - Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting (SEC Update)	This amendment provides SEC guidance that it would not object to filers presenting debt issue costs related to line-of-credit arrangements as an asset and ratably amortizing the costs over the term of the arrangement.	June 18, 2015 (early adoption permitted)	Did not have an impact on the consolidated financial statements.
ASU 2015-08, Business Combinations Topic 805 Pushdown Accounting Amendments to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115	This update amends the codification for SEC Staff Bulletin No. 115	November 18, 2014	Did not have an impact on the consolidated financial statements.
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 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)	The Company early adopted this ASU and applied the guidance to commercial mortgage backed securitization transactions. See "Commercial Real Estate Investments" footnote for further disclosure.
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	Impacts disclosures only and does not 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	This ASU raises the threshold for a disposal to be treated as discontinued operations.	April 1, 2015	Did not have a significant impact on the consolidated financial statements.

Operations and Disclosures of Disposals of Components of an Entity			
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 the property to the creditor through a deed in lieu of foreclosure or similar arrangement.	January 1, 2015	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 September 30, 2015 and December 31, 2014, which were carried at their fair value:

September 30, 2015	Freddie Mac	Fannie Mae	Ginnie Mae	Total
	(dollars in thousands)			
Principal outstanding	$21,598,845	$39,061,904	$72,826	$60,733,575
Unamortized premium	1,913,855	2,909,606	31,899	4,855,360
Unamortized discount	(6,039)	(6,201)	(11)	(12,251)
Amortized cost	23,506,661	41,965,309	104,714	65,576,684
Gross unrealized gains	244,683	547,434	6,467	798,584
Gross unrealized losses	(249,094)	(316,455)	(3,079)	(568,628)
Estimated fair value	$23,502,250	$42,196,288	$108,102	$65,806,640

	Fixed Rate	Adjustable Rate	Total
	(dollars in thousands)		
Amortized cost	$ 61,727,096	$ 3,849,588	$ 65,576,684
Gross unrealized gains	668,600	129,984	798,584
Gross unrealized losses	(551,434)	(17,194)	(568,628)
Estimated fair value	$ 61,844,262	$ 3,962,378	$ 65,806,640

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

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 September 30, 2015 and December 31, 2014, according to their estimated weighted average life classifications:

	September 30, 2015		December 31, 2014	
Weighted Average Life	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost
	(dollars in thousands)			
Less than one year	$26,908	$27,387	$43,248	$42,831
Greater than one year through five years	24,579,949	24,237,266	42,222,114	41,908,586
Greater than five years through ten years	40,978,447	41,081,291	39,018,833	39,098,352
Greater than ten years	221,336	230,740	281,061	283,756
Total	$65,806,640	$65,576,684	$81,565,256	$81,333,525

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The weighted average lives of the Agency mortgage-backed securities at September 30, 2015 and December 31, 2014 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 September 30, 2015 and December 31, 2014.

	September 30, 2015			December 31, 2014		
	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	6,574,181	(61,722)	283	4,613,599	(36,959)	205
12 Months or More	22,917,561	(506,906)	286	35,175,194	(713,311)	302
Total	29,491,742	(568,628)	569	39,788,793	(750,270)	507

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 Agency.

During the quarter and nine months ended September 30, 2015, the Company disposed of $3.6 billion and $20.1 billion of Agency mortgage-backed securities, respectively, resulting in a net realized gain of $6.3 million and $77.9, respectively.

During the quarter and nine months ended September 30, 2014, the Company disposed of $4.1 billion and $13.3 billion of Agency mortgage-backed securities, respectively, resulting in a net realized gain of $5.5 million and $176.5 million, respectively.

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 securities. Interest-only mortgage-backed securities in the Company's portfolio as of September 30, 2015 and December 31, 2014 had net unrealized gains (losses) of $(42.7) million and $(8.0) million and an amortized cost of $1.6 billion and $1.2 billion, respectively.

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5. COMMERCIAL REAL ESTATE INVESTMENTS

In September 2015, the Company originated a $592.0 million acquisition financing with respect to a 24-building New York City multifamily apartment portfolio. As of September 30, 2015, such financing is comprised of a $480.0 million senior mortgage loan ($476.6 million, net of origination fees), and mezzanine debt with an initial principal balance of $72.0 million and a future funding component of $20.0 million. The senior mortgage loan is held for sale on the accompanying Consolidated Statements of Financial Condition as of September 30, 2015.

At September 30, 2015 and December 31, 2014, commercial real estate investments held for investment were composed of the following:

CRE Debt and Preferred Equity Investments

	September 30, 2015			December 31, 2014		
	Outstanding Principal	Carrying Value(1)	Percentage of Loan Portfolio(2)	Outstanding Principal	Carrying Value(1)	Percentage of Loan Portfolio(2)
	(dollars in thousands)					
Senior mortgages	322,564	321,350	24.4 %	384,304	383,895	25.2 %
Senior securitized mortgages (3)	315,172	314,921	23.9 %	399,541	398,634	26.3 %
Mezzanine loans	560,800	558,613	42.4 %	522,474	522,731	34.4 %
Preferred equity	122,444	121,711	9.3 %	214,653	212,905	14.1 %
Total (4)	$1,320,980	$1,316,595	100.0 %	$1,520,972	$1,518,165	100.0 %

(1) Carrying value includes unamortized origination fees of $4.8 million and $3.0 million as of September 30, 2015 and December 31, 2014, respectively.
(2) Based on outstanding principal.
(3) Assets of consolidated VIEs.
(4) Excludes Loans held for sale.

	September 30, 2015				
	Senior Mortgages	Senior Securitized Mortgages(1)	Mezzanine Loans	Preferred Equity	Total
	(dollars in thousands)				
Beginning balance	$383,895	$ 398,634	$522,731	$212,905	$1,518,165
Originations & advances (principal)	216,125	-	140,106	-	356,231
Principal payments	(230,220)	(84,369)	(101,781)	(92,210)	(508,580)
Sales (principal)	(46,945)	-	-	-	(46,945)
Amortization & accretion of (premium) discounts	(107)	-	(164)	516	245
Net (increase) decrease in origination fees	(3,200)	-	(2,556)	-	(5,756)
Amortization of net origination fees	1,802	656	277	500	3,235

Transfers	-	-	-	-	-
Allowance for loan losses	-	-	-	-	-
Net carrying value (2)	$321,350	$ 314,921	$558,613	$121,711	$1,316,595

(1) Assets of consolidated VIE.
(2) Excludes Loans held for sale.

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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

(1) Assets of consolidated VIE.

Internal CRE Debt and Preferred Equity Investment Ratings

	September 30, 2015					
			Internal Ratings			
Investment Type	Outstanding Principal (1)	Percentage of CRE Debt and Preferred Equity Portfolio	Performing	Watch List	Defaulted-Recovery (2)	Impaired
	(dollars in thousands)					
Senior mortgages	$322,564	24.4 %	$309,591	$-	$ 12,973	$-
Senior securitized mortgages (3)	315,172	23.9 %	305,922	9,250	-	-
Mezzanine loans	560,800	42.4 %	560,800	-	-	-
Preferred equity	122,444	9.3 %	122,444	-	-	-
	$1,320,980	100.0 %	$1,298,757	$9,250	$ 12,973	$-

(1) Excludes Loans held for sale.
(2) Related to one loan on non-accrual status.
(3) Assets of consolidated VIE.

December 31, 2014

				Internal Ratings			
Investment Type	Outstanding Principal	Percentage of CRE Debt and Preferred Equity Portfolio		Performing	Watch List	Defaulted-Recovery (1)	Impaired
				(dollars in thousands)			
Senior mortgages	$384,304	25.2	%	$371,331	$-	$ 12,973	$-
Senior securitized mortgages (2)	399,541	26.3	%	390,291	9,250	-	-
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	$-

(1) Related to one loan on non-accrual status.
(2) Assets of consolidated VIE.

Real Estate Acquisitions

In July 2015, a joint venture, in which the Company has a 90% interest, acquired a single tenant retail property located in Chillicothe, Ohio for a purchase price of $11.0 million. The property is leased to a major home improvement retail store through 2020 with three, five year extension options. The purchase price was funded with cash and a new $7.7 million, 10-year, 4.43% fixed rate interest-only mortgage loan. The fair value of the 10% non-controlling interest in the joint venture at the acquisition date was $0.4 million. The fair value of the acquisition and the related non-controlling interest was determined based on the purchase price.

In August 2015, a joint venture, in which the Company has a 90% interest, acquired a multi-tenant retail property located in Largo, Florida for a purchase price of $18.9 million. The purchase price was funded with cash and a new $12.75 million, 10-year, 4.28% fixed rate interest-only mortgage loan. The fair value of the 10% non-controlling interest in the joint venture at the acquisition date was $0.7 million. The fair value of the acquisition and the related non-controlling interest was determined based on the purchase price.

The following table summarizes acquisitions of real estate held for investment during 2015:

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Date of Acquisition	Type	Location		Purchase Price	Remaining Lease Term (Years) (1)
		(dollars in thousands)			
July 2015	Multi Tenant Retail	Ohio	$	11,000	5.1
August 2015	Multi Tenant Retail	Florida	$	18,900	4.4

(1) Does not include extension options.

The aforementioned acquisitions were accounted for using the acquisition method of accounting. Real estate acquisition costs expensed during the three and nine months ended September 30, 2015 totaled $1.2 million.

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 in 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 following table presents the aggregate preliminary allocation of the purchase price for acquisitions during the nine months ended September 30, 2015:

	Location		
	Ohio	Florida	Total
	(dollars in thousands)		
Purchase Price Allocation:			
Land	$2,282	$3,780	$6,062
Buildings	8,256	15,120	23,376
Site improvements	639	-	639
Tenant Improvements	671	-	671
Real estate held for investment	11,848	18,900	30,748
Intangible assets (liabilities):			
Leasehold intangible assets	1,269	-	1,269
Above market lease	-	-	-
Below market lease value	(2,117)	-	(2,117)

Total purchase price	$11,000	$18,900	$29,900

The purchase price allocations for the acquisitions completed during the three months ended September 30, 2015 are preliminary pending the receipt of information necessary to complete the valuation of certain tangible and intangible assets and liabilities and therefore are subject to change.

The following table presents the aggregate final allocation of the purchase price for 2014 acquisitions:

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	Location			
	Tennessee	Virginia	Joint Venture	Total
	(dollars in thousands)			
Purchase Price Allocation:				
Land	$3,503	$6,394	$21,441	$31,338
Buildings	11,960	10,862	97,680	120,502
Site improvements	1,349	1,184	12,705	15,238
Tenant Improvements	-	-	9,365	9,365
Real estate held for investment	16,812	18,440	141,191	176,443
Intangible assets (liabilities):				
Leasehold intangible assets	4,288	3,218	22,297	29,803
Above market lease	-	-	5,458	5,458
Below market lease value	(2,100)	(3,915)	(14,946)	(20,961)
Total purchase price	$19,000	$17,743	$154,000	$190,743

The weighted average amortization period for intangible assets and liabilities as of September 30, 2015 and December 31, 2014 is 8.9 years and 12.0 years, respectively. Above market leases 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.

Refer to Equity Method Investments below for details related to real estate investment activity during the quarter ended September 30, 2015.

Investments in Commercial Real Estate

	September 30, 2015	December 31, 2014
	(dollars in thousands)	
Real estate held for investment, at amortized cost		
Land	$ 44,039	$ 38,117
Buildings and improvements	200,218	176,139
Subtotal	244,257	214,256
Less: accumulated depreciation	(12,997)	(4,224)
Total real estate held for investment, at amortized cost, net	231,260	210,032
Equity in unconsolidated joint venture	70,187	-
Investments in commercial real estate, net	$ 301,447	$ 210,032

Depreciation expense was $3.1 million and $8.8 million for the quarter and nine months ended September 30, 2015, respectively. Depreciation expense was $0.4 million and $0.7 million for the quarter and nine months ended September 30, 2014, respectively. Depreciation expense is included in Other income (loss) in the Consolidated Statements of Comprehensive Income (Loss).

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 September 30, 2015 for the consolidated properties, including consolidated joint venture properties are as follows:

Rental Income

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	September 30, 2015 (dollars in thousands)
2015 (remaining)	$ 5,672
2016	20,529
2017	17,713
2018	15,333
2019	12,998
Later years	52,875
	$ 125,120

Mortgage loans payable as of September 30, 2015 and December 31, 2014, were as follows:

September 30, 2015

Property	Mortgage Carrying Value (dollars in thousands)	Mortgage Principal	Interest Rate	Fixed/Floating Rate	Maturity Date	Priority
Joint Ventures	$ 124,400	$ 124,400	4.03% to 4.44%	Fixed	2024 and 2025	First liens
Tennessee	12,350	12,350	4.01 %	Fixed	6/6/2019	First liens
Virginia	11,025	11,025	3.58 %	Fixed	9/6/2019	First liens
Arizona	16,460	16,389	3.50 %	Fixed	1/1/2017	First liens
Nevada	2,462	2,453	3.45 %	Floating (1)	3/29/2017	First liens
	$ 166,697	$ 166,617				

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

December 31, 2014

Property	Mortgage Carrying Value (dollars in thousands)	Mortgage Principal	Interest Rate	Fixed/Floating Rate	Maturity Date	Priority
Joint Venture	$ 103,950	$ 103,950	4.03 %	Fixed	12/6/2024	First liens
Tennessee	12,350	12,350	4.01 %	Fixed	6/6/2019	First liens
Virginia	11,025	11,025	3.58 %	Fixed	9/6/2019	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).

The following table details future mortgage loan principal payments as of September 30, 2015:

	Mortgage Loan Principal Payments (dollars in thousands)

2015 (remaining)	$	98
2016		400
2017		18,344
2018		-
2019		23,375
Later years		124,400
	$	166,617

Equity Method Investments

In August 2015, the Company acquired a portfolio of six retail properties located in New York, Indiana, Kentucky, and Illinois through a newly formed joint venture partnership and contributed approximately $57.7 million of capital. The Company has an eighty five percent interest in the joint venture, but as all major decisions require unanimous consent by the joint venture partners, the Company is not considered to have a controlling financial interest and accounts for its investment under the equity method of accounting.

In May 2015, the Company acquired a multifamily property located in Florida through a joint venture partnership and contributed approximately $12 million of capital. The Company has a seventy-five percent interest in the joint venture, but as all major decisions require unanimous consent by the joint venture partners, the Company is not considered to have a controlling financial interest and accounts for its investment under the equity method of accounting.

VIEs

Securitizations

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 used the proceeds to originate commercial real estate investments. The Company retained bonds rated below investment grade and the 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.

In February 2015, the Company purchased the junior-most tranche, Class C Certificate of the Freddie Mac securitization, FREMF Mortgage Trust 2015-KLSF ("FREMF 2015-KLSF") for $102.1 million. The underlying portfolio is a pool of 11 floating rate multifamily mortgage loans with a cut-off principal balance of $1.4 billion. The Company was required to consolidate the FREMF 2015-KLSF Trust's assets and liabilities of $1.4 billion and $1.3 billion, respectively, at September 30, 2015.

In April 2015, the Company purchased the junior-most tranche, Class C Certificate of the Freddie Mac securitization, FREMF Mortgage Trust 2015-KF07 ("FREMF 2015-KF07") for $89.4 million. The underlying portfolio is a pool of 40 floating rate multifamily mortgage loans with a cut-off principal balance of $1.2 billion. The Company was required to consolidate the FREMF 2015-KF07 Trust's assets and liabilities of $1.2 billion and $1.1 billion, respectively, at September 30, 2015. FREMF 2015-KLSF and FREMF 2015-KF07 are collectively referred to herein as the FREMF Trusts.

The FREMF Trusts are structured as pass-through entities that receive principal and interest on the underlying collateral and distribute those payments to the certificate holders. The FREMF Trusts are VIEs and the Company is considered to be the primary beneficiary as a result of its ability to replace the special servicer without cause through its ownership of the Class C Certificates and its current designation as the directing certificate holder. The Company's exposure to the obligations of the VIEs is generally limited to the Company's investment in the FREMF Trusts of $188.8 million. Assets of the FREMF Trusts may only be used to settle obligations of the FREMF Trusts. Creditors of the FREMF Trusts 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 FREMF Trusts. No gain or loss was recognized upon initial consolidation of the FREMF Trusts, but $0.8 million of related costs were expensed. The FREMF Trusts' assets are included in Commercial real estate debt investments and the FREMF Trusts' liabilities are included in Securitized

As of September 30, 2015 the carrying value of the Trust's assets was $314.9 million, net of $0.2 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 September 30, 2015, the carrying value of the Trust's liabilities was $176.3 million, classified as Securitized debt of consolidated VIEs in the accompanying Consolidated Statements of Financial Condition.

debt of consolidated VIEs in the accompanying Consolidated Statements of Financial Condition.

Upon consolidation, the Company elected the fair value option for the financial assets and liabilities of the FREMF Trusts in order to avoid an accounting mismatch, and to more faithfully represent the economics of its interest in the entities. The fair value

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option requires that changes in fair value be reflected in the Company's Consolidated Statements of Comprehensive Income (Loss). The Company has early adopted ASU 2014-13 and applied the practical expedient fair value measurement whereby the Company determines whether the fair value of the financial assets or financial liabilities is more observable as a basis for measuring the less observable financial instruments. The Company has determined that the fair value of the financial liabilities of the FREMF Trusts are more observable, since the prices for these liabilities are primarily available from third-party pricing services utilized for multifamily mortgage-backed securities, while the individual assets of the trusts are inherently less capable of precise measurement given their illiquid nature and the limitations on available information related to these assets. Given that the Company's methodology for valuing the financial assets of the FREMF Trusts are an aggregate fair value derived from the fair value of the financial liabilities, the Company has determined that the fair value of each of the financial assets in their entirety should be classified in Level 2 of the fair value measurement hierarchy.

The statement of financial condition of the FREMF Trusts, that is reflected in the Company's Consolidated Statements of Financial Condition at September 30, 2015 is as follows:

	September 30, 2015 (dollars in thousands)	
Senior securitized commercial mortgages carried at fair value	$	2,565,909
Accrued interest receivable		4,703
Total assets	$	2,570,612
Liabilities and equity		
Securitized debt (non-recourse) at fair value	$	2,377,067
Accrued interest payable		4,068
	$	2,381,135
Equity		189,477
Total liabilities and equity	$	2,570,612

The FREMF Trust mortgage loans had an unpaid principal balance of $2.6 billion at September 30, 2015. As of September 30, 2015 there are no loans 90 days or more past due or on nonaccrual status. There is no gain or loss attributable to instrument-specific credit risk of the underlying loans or securitized debt securities as of September 30, 2015 based upon the Company's process of monitoring events of default on the underlying mortgage loans.

The statement of comprehensive income (loss) of the FREMF Trusts that is reflected in the Company's Consolidated Statements of Comprehensive Income (Loss) at September 30, 2015 is as follows:

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		For the period February 25, 2015 to September 30, 2015 (dollars in thousands)
Net interest income:		
Interest income	$	26,634
Interest expense		9,051
Net interest income		17,583
Other income (loss):		
Unrealized gain (loss) on financial instruments at fair value (1)		(2,691)
Guarantee fees and servicing costs		9,579
Other income (loss)		(12,270)
General and administration expenses		58
Net income	$	5,255

(1) Included in Net unrealized gains (losses) on financial instruments measured at fair value through earnings.

The geographic concentrations of credit risk exceeding 5% of the total loan balances related to the FREMF Trusts as of September 30, 2015 are as follows:

Securitized Loans at Fair Value Geographic Concentration of Credit Risk

Property Location		Principal Balance	% of Balance
		(dollars in thousands)	
Texas	$	749,569	29.4 %
North Carolina		537,375	21.0 %
Florida		391,215	15.3 %
Ohio		197,455	7.7 %

6. 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 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 trading, available for sale or held to maturity 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.

(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.

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, futures contracts and investment in affiliate are valued using quoted prices for identical instruments in active markets. Investment Securities, interest rate swaps, swaptions and other

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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 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 and 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 Investment 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 Investment Securities, interest rate swaps, swaptions, TBA derivatives and MBS options 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 Investment Securities, interest rate swaps, swaptions, TBA derivatives and MBS options as Level 2 inputs in the fair value hierarchy. Additionally, as discussed in the “Commercial Real Estate Investments” footnote, Commercial real estate debt investments carried at fair value are classified as Level 2.

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

September 30, 2015	Level 1	Level 2	Level 3	Total
		(dollars in thousands)		
Assets:				
Agency mortgage-backed securities	$-	$65,806,640	$-	$65,806,640
Agency debentures	-	413,115	-	413,115
Credit risk transfer securities	-	330,727	-	330,727
Non-Agency mortgage-backed securities	-	490,037	-	490,037
Commercial real estate debt investments	-	2,881,659	-	2,881,659
Interest rate swaps	-	39,295	-	39,295
Other derivatives	-	87,516	-	87,516
Total assets	$-	$70,048,989	$-	$70,048,989
Liabilities:				
Securitized debt of consolidated VIEs	$-	$2,377,067	$-	$2,377,067
Interest rate swaps	-	2,160,350	-	2,160,350
Other derivatives	113,626	-	-	113,626
Total liabilities	$113,626	$4,537,417	$-	$4,651,043

December 31, 2014	Level 1	Level 2	Level 3	Total
		(dollars in thousands)		
Assets:				
Agency mortgage-backed securities	$-	$81,565,256	$-	$81,565,256
Agency debentures	-	1,368,350	-	1,368,350
Investment in affiliate	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:				
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

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, methodologies that incorporate market-based transactions 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

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agreements and repurchase agreements whose term is less than twelve months, 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 was determined using end of day quoted prices in active markets.

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

The following table summarizes the estimated fair values for financial assets and liabilities as of September 30, 2015 and December 31, 2014.

		September 30, 2015		December 31, 2014	
	Level in Fair Value Hierarchy	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:	(dollars in thousands)				
Cash and cash equivalents	1	$ 2,237,423	$ 2,237,423	$ 1,741,244	$ 1,741,244
Reverse repurchase agreements	1	-	-	100,000	100,000
Agency mortgage-backed securities	2	65,806,640	65,806,640	81,565,256	81,565,256
Agency debentures	2	413,115	413,115	1,368,350	1,368,350
Credit risk transfer securities	2	330,727	330,727	-	-
Non-Agency mortgage-backed securities	2	490,037	490,037	-	-
Commercial real estate debt investments, at fair value	2	2,881,659	2,881,659	-	-
Investment in affiliate	1	-	-	143,045	143,045
	3	1,316,595	1,324,167	1,518,165	1,528,444

Commercial real estate debt and preferred equity, held for investment					
Loans held for sale	3	476,550	476,550	-	-
Corporate debt	2	424,974	417,348	166,464	166,056
Interest rate swaps	2	39,295	39,295	75,225	75,225
Other derivatives	1,2	87,516	87,516	5,499	5,499
Financial liabilities:					
Repurchase agreements	1,2	$ 56,449,364	$ 56,604,768	$ 71,361,926	$ 71,587,222
Other secured financing	2	359,970	360,109	-	-
Convertible Senior Notes	1	-	-	845,295	863,470
Securitized debt of consolidated VIEs	2	2,553,398	2,553,017	260,700	262,061
Mortgages payable	2	166,697	170,534	146,553	146,611
Participation sold	3	13,389	13,358	13,693	13,655
Interest rate swaps	2	2,160,350	2,160,350	1,608,286	1,608,286
Other derivatives	1,2	113,626	113,626	8,027	8,027

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7. SECURED FINANCING

The Company had outstanding $56.4 billion and $71.4 billion of repurchase agreements with weighted average borrowing rates of 1.75% and 1.62%, after giving effect to the Company's interest rate swaps used to hedge cost of funds, and weighted average remaining maturities of 147 days and 141 days as of September 30, 2015 and December 31, 2014, respectively.

At September 30, 2015 and December 31, 2014, the repurchase agreements had the following remaining maturities, collateral types and weighted average rates:

	September 30, 2015						
	Repurchase Agreements by Collateral Type						
	Agency Mortgage-backed Securities	Debentures	CRTs	Non-Agency Mortgage-backed Securities	Commercial Loans	Total Repurchase Agreements	Weighted Average Rate
	(dollars in thousands)						
1 day	$ 8,050,000	$ -	$ -	$ -	$ -	$ 8,050,000	0.57 %
2 to 29 days	11,640,888	94,950	17,788	77,236	-	11,830,862	0.45 %
30 to 59 days	4,721,915	-	60,406	63,852	-	4,846,173	0.52 %
60 to 89 days	8,794,109	-	-	46,020	-	8,840,129	0.57 %
90 to 119 days	3,957,380	-	-	-	-	3,957,380	0.52 %
Over 120 days(1)	18,774,192	-	-	-	150,628	18,924,820	1.29 %
Total	$ 55,938,484	$ 94,950	$ 78,194	$ 187,108	$ 150,628	$ 56,449,364	0.78 %

	December 31, 2014			
	Repurchase Agreements by Collateral Type			
	Agency Mortgage-backed Securities	Debentures	Total Repurchase Agreements	Weighted Average Rate
	(dollars in thousands)			
1 day	$ -	$ -	$ -	0.00 %
2 to 29 days	27,604,632	749,535	28,354,167	0.35 %
30 to 59 days	17,149,787	186,682	17,336,469	0.43 %
60 to 89 days	3,662,646	378,031	4,040,677	0.38 %
90 to 119 days	2,945,495	-	2,945,495	0.50 %
Over 120 days (1)	18,685,118	-	18,685,118	1.24 %
Total	$ 70,047,678	$ 1,314,248	$ 71,361,926	0.61 %

(1) Approximately 14% and 15% of the total repurchase agreements had a remaining maturity over 1 year as of September 30, 2015 and December 31, 2014, respectively.

Repurchase agreements and reverse repurchase agreements with the same counterparty and the same maturity are presented net in the Consolidated repurchase agreements and reverse repurchase agreements as presented in the Consolidated Statements of Financial Condition as of September 30, 2015 and

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 December 31, 2014. Refer to “Derivative Instruments” footnote for information related to the effect of netting arrangements on the Company’s derivative instruments.

	September 30, 2015		December 31, 2014	
	Reverse Repurchase Agreements	Repurchase Agreements	Reverse Repurchase Agreements	Repurchase Agreements
	(dollars in thousands)			
Gross Amounts	$-	$56,449,364	$700,000	$71,961,926
Amounts Offset	-	-	(600,000)	(600,000)
Netted Amounts	$-	$56,449,364	$100,000	$71,361,926

The Company also finances a portion of its financial assets with advances from the Federal Home Loan Bank of Des Moines ("FHLB Des Moines"). Borrowings from FHLB Des Moines are reported in other secured financing in the Company's Consolidated Statements of Financial Condition.

Financial instruments pledged as collateral under secured financing arrangements and interest rate swaps had an estimated fair value and accrued interest of $60.8 billion and $187.2 million, respectively, at September 30, 2015 and $75.4 billion and $226.6 million, respectively, at December 31, 2014.

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8. 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 futures contracts. The Company may also enter into TBA derivatives, MBS options and U.S. Treasury or Eurodollar futures contracts 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 September 30, 2015 and December 31, 2014:

Derivatives Instruments	Balance Sheet Location	September 30, 2015	December 31, 2014
Assets:		(dollars in thousands)	
Interest rate swaps	Interest rate swaps, at fair value	$ 39,295	$ 75,225
Interest rate swaptions	Other derivatives, at fair value	-	5,382
TBA derivatives	Other derivatives, at fair value	87,516	-
Futures contracts	Other derivatives, at fair value	-	117
		$ 126,811	$ 80,724
Liabilities:			
Interest rate swaps	Interest rate swaps, at fair value	$ 2,160,350	$ 1,608,286
TBA derivatives	Other derivatives, at fair value	-	4,258
Futures contracts	Other derivatives, at fair value	113,626	3,769
		$ 2,273,976	$ 1,616,313

The following table summarizes certain characteristics of the Company's interest rate swaps at September 30, 2015 and December 31, 2014:

September 30, 2015

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	$ 3,202,454	1.85 %	0.22 %	2.04
3 - 6 years	11,113,000	1.81 %	0.46 %	4.49
6 - 10 years	11,743,300	2.45 %	0.47 %	8.20
Greater than 10 years	3,634,400	3.70 %	0.26 %	19.62
Total / Weighted Average	$ 29,693,154	2.26 %	0.42 %	7.28

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 as of September 30, 2015 and December 31, 2014.
(2) Excludes forward starting swaps.
(3) Weighted average fixed rate on forward starting pay fixed swaps was 2.04% and 3.25% as of September 30, 2015 and December 31, 2014, respectively.

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The following table summarizes certain characteristics of the Company's interest rate swaptions at September 30, 2015 and December 31, 2014:

September 30, 2015	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	$ -	-	-	-	-

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

The following table summarizes certain characteristics of the Company's TBA derivatives as of September 30, 2015 and December 31, 2014:

September 30, 2015				
Purchase and sale contracts for derivative TBAs	Notional	Implied Cost Basis	Implied Market Value	Net Carrying Value
		(dollars in thousands)		
Purchase contracts	$ 14,055,000	$ 14,490,220	$ 14,577,736	$ 87,516
Sale contracts	-	-	-	-
Net TBA derivatives	$ 14,055,000	$ 14,490,220	$ 14,577,736	$ 87,516

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)

The following table summarizes certain characteristics of the Company's futures derivatives as of September 30, 2015:

	Notional - Long	Notional - Short Positions	Weighted Average

	Positions		Years to Maturity
		(dollars in thousands)	
2-year swap equivalent Eurodollar contracts	$ -	$ (8,000,000)	2.00
U.S. Treasury futures - 5 year	-	(2,273,000)	4.41
U.S. Treasury futures - 10 year and greater	-	(655,600)	6.92
Total	$ -	$ (10,928,600)	2.80

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 September 30, 2015 and December 31, 2014, respectively.

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September 30, 2015	Gross Amounts	Amounts Eligible for Offset: Financial Instruments	Amounts Eligible for Offset: Cash Collateral	Net Amounts
Assets:		(dollars in thousands)		
Interest rate swaps, at fair value	$ 39,295	$ (39,295)	$ -	$ -
TBA derivatives, at fair value	87,516	-	-	87,516
Liabilities:				
Interest rate swaps, at fair value	$ 2,160,350	$ (39,295)	$ (1,254,287)	$ 866,768
Futures contracts, at fair value	113,626	-	(113,626)	-

December 31, 2014	Gross Amounts	Amounts Eligible for Offset: Financial Instruments	Amounts Eligible for Offset: 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
Futures contracts, at fair value	117	(117)	-	-
Liabilities:				
Interest rate swaps, at fair value	$ 1,608,286	$ (66,180)	$ (869,302)	$ 672,804
TBA derivatives, at fair value	4,258	-	-	4,258
Futures contracts, at fair value	3,769	(117)	-	3,652

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)	
Quarter Ended:			
September 30, 2015	$ (162,304)	$ -	$ (822,585)
September 30, 2014	$ (169,083)	$ -	$ 98,593
Nine Months Ended:			
September 30, 2015	$ (465,008)	$ (226,462)	$ (587,995)
September 30, 2014	$ (650,452)	$ (779,333)	$ (75,287)

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

The effect of other derivative contracts on the Company's Consolidated Statements of Comprehensive Income (Loss) is as follows:

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Derivative Instruments	Realized Gain (Loss)	Unrealized Gain (Loss)	Amount of Gain/(Loss) Recognized in Net Gains (Losses) on Trading Assets
	(dollars in thousands)		
Quarter Ended September 30, 2015			
Net TBA derivatives (1)	$ 168,292	$ 81,560	$ 249,852
Net interest rate swaptions	(11,525)	11,519	(6)
Futures	(36,468)	(105,199)	(141,667)
			$ 108,179

Derivative Instruments	Realized Gain (Loss)	Unrealized Gain (Loss)	Amount of Gain/(Loss) Recognized in Net Gains (Losses) on Trading Assets
	(dollars in thousands)		
Quarter Ended September 30, 2014			
Net TBA derivatives (1)	$ (1,864)	$ 6,992	$ 5,128
Net interest rate swaptions	(30,432)	26,518	(3,914)
Futures	(2,991)	6,455	3,464
			$ 4,678

Derivative Instruments	Realized Gain (Loss)	Unrealized Gain (Loss)	Amount of Gain/(Loss) Recognized in Net Gains (Losses) on Trading Assets
	(dollars in thousands)		
Nine Months Ended September 30, 2015			
Net TBA derivatives (1)	$ 61,846	$ 91,773	$ 153,619
Net interest rate swaptions	(41,016)	35,634	(5,382)
Futures	(51,205)	(109,974)	(161,179)
			$ (12,942)

Derivative Instruments	Realized Gain (Loss)	Unrealized Gain (Loss)	Amount of Gain/(Loss) Recognized in Net Gains (Losses) on Trading Assets
	(dollars in thousands)		

Nine Months Ended September 30, 2014				
Net TBA derivatives (1)	$ (46,747)	$ (8,046)	$ (54,793)
Net interest rate swaptions	$ (102,413)	$ (24,613)	$ (127,026)
Futures	$ (15,466)	$ 3,631	$ (11,835)
			$ (193,654)

(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 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 September 30, 2015 was approximately $2.1 billion, which represents the maximum amount the Company would be required to pay upon termination. This amount is fully collateralized.

9. CONVERTIBLE SENIOR NOTES

In 2010, the Company issued $600.0 million in aggregate principal amount of its 4% Convertible Senior Notes for net proceeds of approximately $582.0 million. In 2012, the Company repurchased $492.5 million in aggregate principal amount of its 4% Convertible Senior Notes. In February 2015, the 4% Convertible Senior Notes matured and the Company repaid the remaining 4% Convertible Senior Notes for the face amount of $107.5 million.

In May 2012, the Company issued $750.0 million in aggregate principal amount of its 5% Convertible Senior Notes due 2015 for net proceeds of approximately $727.5 million. In May 2015, the 5% Convertible Senior Notes matured and the Company repaid the 5% Convertible Senior Notes for the face amount of $750.0 million.

10. 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

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Stock, 4,600,000 shares classified as 6.00% Series B Cumulative Convertible Preferred Stock, 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 September 30, 2015 and December 31, 2014, the Company had issued and outstanding 947,826,176 and 947,643,079 shares of common stock, with a par value of $0.01 per share.

No options were exercised during the nine months ended September 30, 2015 and 2014.

During the nine months ended September 30, 2015 and 2014, the Company raised $1.7 million and $1.8 million by issuing 168,000 shares and 159,000 shares, respectively, through the Direct Purchase and Dividend Reinvestment Program.

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 nine months ended September 30, 2015 and 2014.

(B) Preferred Stock

At September 30, 2015 and December 31, 2014, 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 Through September 30, 2015, the Company had declared and paid all required quarterly dividends on the Series A Preferred Stock.

At September 30, 2015 and December 31, 2014, 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 September 30, 2015, the Company had declared and paid all required quarterly dividends on the Series C Preferred Stock.

At September 30, 2015 and December 31, 2014, 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 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 September 30, 2015, the Company had declared and paid all required quarterly dividends on the Series D Preferred Stock.

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).

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.

(C) Distributions to Stockholders

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During the nine months ended September 30, 2015, the Company declared dividends to common stockholders totaling $853.0 million, or $0.90 per common share, of which $284.3 million, or $0.30 per common share, was paid to common stockholders on October 30, 2015. During the nine months ended September 30, 2015, the Company declared and paid dividends to Series A Preferred Stock stockholders totaling approximately $10.9 million, or $1.477 per preferred share, Series C Preferred Stock stockholders totaling approximately $17.2 million, or $1.430 per preferred share and Series D Preferred Stock stockholders totaling approximately $25.9 million, or $1.406 per preferred share.

During the nine months ended September 30, 2014, the Company declared dividends to common stockholders totaling $852.8 million, or $0.90 per common share, of which $284.3, or $0.30 per common share, was paid to common stockholders on October 31, 2014. During the nine months ended September 30, 2014, the Company declared and paid dividends to Series A Preferred stockholders totaling approximately $10.9 million, or $1.477 per preferred share, Series C Preferred stockholders totaling approximately $17.2 million, or $1.430 per preferred share, Series D Preferred stockholders totaling approximately $25.9 million, or $1.406 per preferred share.

11. INTEREST INCOME AND INTEREST EXPENSE

The table below presents the components of the Company's interest income and interest expense for the quarters and nine months ended September 30, 2015 and 2014.

	For the Quarter Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Interest income:	(dollars in thousands)			
Investment Securities	$399,702	$606,331	$1,448,434	$1,861,037
Commercial investment portfolio(1)	50,204	38,113	142,969	120,924
U.S. Treasury securities	-	-	-	1,329
Securities loaned	-	-	-	114
Reverse repurchase agreements	820	135	2,714	906
Other	66	61	193	193
Total interest income	450,792	644,640	1,594,310	1,984,503
Interest expense:				
Repurchase agreements	103,823	102,750	307,796	309,654
Convertible Senior Notes	-	22,376	29,740	61,592
U.S. Treasury securities sold, not yet purchased	-	-	-	1,076
Securities borrowed	-	-	-	95
Securitized debt of consolidated VIEs	6,111	1,780	14,468	5,244
Participation sold	161	163	479	486
Other	202	-	306	-
Total interest expense	110,297	127,069	352,789	378,147
Net interest income	$340,495	$517,571	$1,241,521	$1,606,356

(1) Includes commercial real estate debt, preferred equity and corporate debt.

12. GOODWILL

13. NET INCOME (LOSS) PER COMMON SHARE

At September 30, 2015 and December 31, 2014, goodwill totaled $71.8 million and $94.8 million, respectively. The decline in goodwill is due to a $23.0 million reduction of goodwill related to FIDAC as a result of the Company’s intention to wind down FIDAC’s investment advisory operations.

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 quarters and nine months ended September 30, 2015 and 2014.

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	For the Quarter Ended		For the Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
	(dollars in thousands, except per share data)			
Net income (loss)	$ (627,491)	$ 354,856	$ (203,919)	$ (184,007)
Less: Net income (loss) attributable to noncontrolling interest	(197)	-	(436)	-
Net income (loss) attributable to Annaly	(627,294)	354,856	(203,483)	(184,007)
Less: Preferred stock dividends	17,992	17,992	53,976	53,976
Net income (loss) per share available (related) to common stockholders, prior to adjustment for dilutive potential common shares, if necessary	(645,286)	336,864	(257,459)	(237,983)
Add: Interest on Convertible Senior Notes, if dilutive	-	12,226	-	-
Net income (loss) available to common stockholders, as adjusted	(645,286)	349,090	(257,459)	(237,983)
Weighted average shares of common stock outstanding-basic	947,795,500	947,565,432	947,732,735	947,513,514
Add: Effect of stock awards and Convertible Senior Notes, if dilutive	-	39,750,095	-	-
Weighted average shares of common stock outstanding-diluted	947,795,500	987,315,527	947,732,735	947,513,514
Net income (loss) per share available (related) to common share:				
Basic	$ (0.68)	$ 0.36	$ (0.27)	$ (0.25)
Diluted	$ (0.68)	$ 0.35	$ (0.27)	$ (0.25)

Options to purchase 1.7 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 quarters and nine months ended September 30, 2015, respectively.

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 quarters and nine months ended September 30, 2014, respectively.

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

14. 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.

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 Nine Months Ended			
	September 30, 2015		September 30, 2014	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Options outstanding at the beginning of period	2,259,335	$ 15.35	3,581,752	$ 15.44
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited	(266,399)	15.24	(1,016,667)	15.07
Expired	(294,750)	17.07	(305,750)	17.34
Options outstanding at the end of period	1,698,186	$ 15.07	2,259,335	$ 15.35
Options exercisable at the end of period	1,698,186	$ 15.07	2,259,335	$ 15.35

The weighted average remaining contractual term was approximately 2.8 years and 3.4 years for stock options outstanding and exercisable as of September 30, 2015 and 2014, respectively.

As of September 30, 2015 and 2014, there was no unrecognized compensation cost related to nonvested share-based compensation awards.

15. INCOME TAXES

For the quarter ended September 30, 2015 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

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
Item 1. Financial Statements

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 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 2014 tax year.

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 quarter and nine months ended September 30, 2015, the Company recorded net income tax benefits of $0.4 million and $8.0 million, respectively, for losses attributable to its TRSs.

During the quarter and nine months ended September 30, 2014, the Company recorded $0.7 million and $6.1 million, respectively, of income tax expense for income attributable to its TRSs.

The Company's 2014, 2013 and 2012 federal, state and local tax returns remain open for examination.

16. 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 September 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 quarters ended September 30, 2015 and 2014 was $0.8 million and $0.9 million, respectively. The Company's aggregate future minimum lease payments total $37.2 million. The following table details the lease payments.

Years Ending December 31,	Lease Commitments (dollars in thousands)
2015 (remaining)	$ 907
2016	3,575
2017	3,565
2018	3,565
2019	3,565
Later years	21,993
	$ 37,170

The Company had no material unfunded loan commitments as of September 30, 2015 and December 31, 2014.

Contingencies

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 economic and political considerations and other factors beyond the Company's control. Changes in the general

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. There were no material contingencies as of September 30, 2015 and December 31, 2014.

17. RISK MANAGEMENT

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 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

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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 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, excluding CRT securities issued by Freddie Mac and Fannie Mae, 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 guaranteed by the respective Agency or by the full faith and credit of the U.S. government. The Company is exposed to credit risk on CRE Debt and Preferred Equity Investments, investments in commercial real estate, commercial mortgage-backed securities, CRT securities, other non-Agency mortgage-backed securities and corporate debt. The Company is exposed to risk of loss if an

18. 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 September 30, 2015 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 September 30, 2015 was $396.5 million with excess net capital of $396.2 million.

19. RELATED PARTY TRANSACTIONS

Investment in Affiliate and Advisory Fees

In August 2015, FIDAC entered into an agreement with Chimera Investment Corporation ("Chimera") to internalize the management of Chimera. As part of the agreement, the companies agreed to terminate the management agreement between FIDAC and Chimera effective August 5, 2015.

In connection with the transaction, Annaly and Chimera entered into a share repurchase agreement pursuant to which Chimera purchased the Company's approximately 9.0 million shares of Chimera at an aggregate price of $126.4 million. The share repurchase agreement closed in August 2015.

For the quarter and nine months ended September 30, 2015, the Company recorded advisory fees from Chimera totaling $3.8 million and $24.8 million, respectively. 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 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.

restated management agreement). For the quarter and nine months ended September 30, 2014, the Company recorded advisory fees from Chimera totaling $8.3 million and $20.5 million, respectively. At September 30, 2015 and December 31, 2014, the Company had amounts receivable from Chimera of $4.0 million and $10.4 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").

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.

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 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 amount paid to the Manager.

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.

20. SUBSEQUENT EVENTS

In October 2015, a joint venture, in which the Company has a 93.7% interest, acquired a 327-unit apartment building in Washington DC, for a gross purchase price of $75.0 million and a net equity investment of $18.7 million.

In October 2015, a joint venture, in which the Company has a 90% interest, acquired a grocery-anchored retail shopping center in Grass Valley, California, for a gross purchase price of $37.8 million and a net equity investment of $11.9 million.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Special Note Regarding Forward-Looking Statements

Certain statements contained in this quarterly 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 (the "Exchange Act"). Forward-looking statements are based on various assumptions (some of which are beyond our control) and may be identified by reference to a future period or periods or by the use of forward-looking terminology, such as "may," "will," "believe," "expect," "anticipate," "continue," or similar terms or variations on those terms or the negative of those terms. Actual results could differ materially from those set forth in forward-looking statements due to a variety of factors, including, but not limited to, changes in interest rates; changes in the yield curve; changes in prepayment rates; the availability of mortgage-backed securities and other securities for purchase; the availability of financing and, if available, the terms of any financings; changes in the market value of our assets; changes in business conditions and the general economy; our ability to grow the commercial mortgage business; credit risks related to our investments in CRT securities, residential mortgage-backed securities and related residential mortgage credit assets, commercial real estate assets and corporate debt; our ability to grow our residential mortgage credit business; our ability to consummate any contemplated investment opportunities; changes in government regulations affecting our business; our ability to maintain our qualification as a REIT for federal income tax purposes; and our ability to maintain our exemption from registration under the Investment Company Act of 1940, as amended. For a discussion of the risks and uncertainties which could cause actual results to differ from those contained in the forward-looking statements, see "Risk Factors" in our most recent Annual Report on Form 10-K and any subsequent Quarterly Reports on Form 10-Q. 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.

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our most recent annual report on Form 10-K. 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 Glossary of Terms for definitions of commonly used terms in this quarterly report on Form 10-Q.

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Item 2. Management's Discussion and Analysis

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ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
Item 2. 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.

We are primarily organized around the following operations:

Annaly, the parent company	Invests primarily in various types of Agency mortgage-backed securities and related derivatives to hedge these investments. Its portfolio also includes residential credit investments such as CRTs and non-Agency mortgage-backed securities.
Annaly Commercial Real Estate Group, Inc. (or ACREG)	Wholly-owned subsidiary that specializes in originating or acquiring, financing and managing commercial loans and other commercial real estate debt, commercial mortgage-backed securities and other commercial real estate-related assets.
Annaly Middle Market Lending LLC	Wholly-owned subsidiary that engages in corporate middle market lending transactions.
RCap Securities, Inc.	Wholly-owned subsidiary that operates as a broker-dealer, and is a member of the Financial Industry Regulatory Authority.
Fixed Income Discount Advisory Company (or FIDAC)	Wholly-owned subsidiary that previously operated as a registered investment advisor.

Business Environment

This past quarter brought about significant interest rate and spread volatility as longer term yields retraced the increase experienced in the second quarter, and Agency mortgage-backed securities spreads widened substantially. We remain cautious as the Federal Reserve (or Fed) is likely to increase the federal funds rate target over the near term, with subsequent rate hikes priced into the yield curve throughout 2016 and beyond. Additionally, further financial and housing regulatory reform is possible, and its effect on our business is unclear.

Economic Environment

Most of the drag to third quarter GDP came from a contraction in inventories. The year-over-year GDP growth rate was a relatively modest 2.0%, but this is still running in line with the Fed's estimate of potential growth. Real GDP growth has maintained a year-over-year pace of 2% or better for 6 quarters in a row, the longest such stretch in nearly a decade.

The Fed currently conducts monetary policy with a multifaceted mandate: maximum employment, price stability and moderate long-term interest rates. 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. Nonfarm payrolls have grown at a slower pace so far in

Economic growth, as measured by real gross domestic product (or GDP), slowed to a seasonally-adjusted annualized rate of 1.5% in the third quarter of 2015, according to the Bureau of Economic Analysis. Consumer spending remained relatively strong during the quarter, increasing 3.2%, bolstered by continued job growth, increasing wages, and from lower energy prices.

2015, averaging 198,000 over the first nine months of the year. The unemployment rate continued to decline, down to 5.1% in September 2015 compared to 5.6% in December 2014. This is consistent with the Fed's own estimate of their mandate-consistent unemployment rate, which was placed at 5.0-5.2% as of their September 17, 2015 meeting. Some signs of labor market slack persist as measures of long-term unemployment, the part-time employment share and those out of the labor force who desire a job remain elevated versus long-term averages. However, as the Fed notes, "labor market indicators show that underutilization of labor resources has diminished since early this year." Inflation remained below the Fed's 2% target through the third quarter of 2015, as measured by the year-over-year changes in the Personal Consumer Expenditure Chain Price Index (or PCE). The headline PCE measure remained low at 0.3% year-over-year in August 2015, down from 0.8% in December 2014 and flat since June 2015. The more stable core PCE measure, which excludes food and energy prices, remained below the Fed's 2.0% target at 1.31% year-over-year in August 2015, slightly below the 1.37% reading in December 2014 but in line with the 2015 average of 1.30% through the first eight months of the year. 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 "partly reflecting declines in energy prices and in prices of non-energy imports." The Committee expects inflation to rise gradually toward 2% over the medium term. Indeed, the underlying trend of inflation improved in the third quarter, with the reading of core CPI rising to 1.9% and various alternative measures of trend inflation, such as median and trimmed mean measures, showing a notable firming.

At their July 29, 2015 meeting, the Fed noted that the economy had been growing "moderately" after a slowdown earlier in the year. Following their September 16-17, 2015 meeting, the Fed struck a slightly more optimistic tone, noting a pickup in household spending and business fixed investment (which they had previously described as "soft"). The FOMC's Summary of Economic Projections also indicated some optimism, as thirteen of the seventeen members still expected an interest rate hike would be appropriate this year. The Fed made a few subtle changes to the statement for their July 28-29 meeting, most notably mentioning "global economic and financial developments" that could negatively impact domestic growth, though Chair Yellen noted in the press conference following the meeting that the Committee expected these effects to be transitory.

During the third quarter of 2015, the 10-year U.S. Treasury yielded between 1.9% and 2.5%, gradually declining throughout the period as worries of a slowdown in emerging markets, a stronger US dollar, and a decline in corporate earnings expectations sparked a period of risk aversion. The market's pricing of future inflation, as measured by trading in the Treasury Inflation-Protected Securities market, declined over the period, with the longer-dated 5-year, 5-year forward breakeven rate moving below the Fed's 2% target driven by declines in commodity prices and import prices. The mortgage basis, or the spread between the 30-year Agency mortgage-backed security current coupon and 10-year U.S. Treasury, declined and then rose during the quarter, reacting to fluctuations in volatility.

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

	September 30, 2015	December 31, 2014	September 30, 2014
30-Year mortgage current coupon	2.80 %	2.83 %	3.20 %
Mortgage basis	76 bps	66 bps	71 bps
10-Year U.S. Treasury rate	2.04 %	2.17 %	2.49 %
LIBOR:			
1-Month	0.19 %	0.17 %	0.16 %
6-Month	0.53 %	0.36 %	0.33 %

Financial Regulatory Reform

unclear which approach, if any, may become law. In addition, regulators remain focused on the wholesale

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 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 to evaluate their potential impact on our business.

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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" of our most recent annual report on Form 10-K.

Net Income (Loss) Summary

The following table presents summarized financial information related to our results of operations as of and for the quarters and nine months ended September 30, 2015 and 2014.

	For the Quarter Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
	(dollars in thousands, except per share data)			
Interest income	$450,792	$644,640	$1,594,310	$1,984,503
Interest expense	110,297	127,069	352,789	378,147
Net interest income	340,495	517,571	1,241,521	1,606,356
Realized and unrealized gains (losses)	(909,158)	(99,065)	(1,297,612)	(1,659,469)
Other income (loss)	(9,741)	(9,948)	(3,463)	25,524
General and administrative expenses	49,457	51,317	152,404	150,884
Income (loss) before income taxes	(627,861)	357,241	(211,958)	(178,473)
Income taxes	(370)	2,385	(8,039)	5,534
Net income (loss)	(627,491)	354,856	(203,919)	(184,007)
Net income (loss) attributable to noncontrolling interest	(197)	-	(436)	-
Net income (loss) attributable to Annaly	(627,294)	354,856	(203,483)	(184,007)
Dividends on preferred stock	17,992	17,992	53,976	53,976
Net income (loss) available (related) to common stockholders	$(645,286)	$336,864	$(257,459)	$(237,983)
Net income (loss) per share available (related) to common stockholders:				
Basic	$(0.68)	$0.36	$(0.27)	$(0.25)
Diluted	$(0.68)	$0.35	$(0.27)	$(0.25)
Weighted average number of common shares outstanding:				
Basic	947,795,500	947,565,432	947,732,735	947,513,514
Diluted	947,795,500	987,315,527	947,732,735	947,513,514
Non-GAAP financial measures (1):				
Normalized interest income (2)	$533,928	$670,632	$1,685,747	$1,978,346
Economic interest expense	$248,041	$296,152	$788,545	$1,028,599
Economic net interest income	$202,751	$348,488	$805,765	$955,904
Normalized economic net interest income (2)	$285,887	$374,480	$897,202	$949,747
Core earnings	$217,601	$308,621	$882,738	$848,793
Normalized core earnings (2)	$300,737	$334,613	$974,175	$842,636
Core earnings per average basic common share	$0.21	$0.31	$0.87	$0.84

Normalized core earnings per average basic common share (2)	$0.30		$0.33		$0.97		$0.83	
Other information:								
Asset portfolio at period-end	$72,441,744		$84,569,804		$72,441,744		$84,569,804	
Average total assets	$75,442,184		$87,269,466		$79,478,853		$84,719,042	
Average equity	$12,439,569		$13,279,934		$12,834,377		$12,882,409	
Leverage at period-end (3)	4.8		5.4		4.8		5.4	
Economic leverage at period-end (4)	5.8		5.4		5.8		5.4	
Capital ratio (5)	13.7	%	15.0	%	13.7	%	15.0	%
Annualized return on average total assets	(3.33	%)	1.63	%	(0.34	%)	(0.29	%)
Annualized return (loss) on average equity	(20.18	%)	10.69	%	(2.12	%)	(1.90	%)
Annualized core return on average equity	7.00	%	9.30	%	9.17	%	8.79	%
Annualized normalized core return on average equity (2)	9.67	%	10.08	%	10.12	%	8.72	%
Net interest margin (6)	1.24	%	1.61	%	1.51	%	1.51	%
Normalized net interest margin (2)	1.62	%	1.74	%	1.64	%	1.50	%
Average yield on interest earning assets	2.41	%	2.99	%	2.70	%	3.13	%
Normalized average yield on interest earning assets (2)	2.86	%	3.11	%	2.86	%	3.12	%
Average cost of interest bearing liabilities	1.65	%	1.64	%	1.63	%	1.95	%
Net interest spread	0.76	%	1.35	%	1.07	%	1.18	%
Normalized net interest spread (2)	1.21	%	1.47	%	1.23	%	1.17	%
Constant prepayment rate	12	%	9	%	11	%	7	%
Long-term constant prepayment rate	9.2	%	6.9	%	9.2	%	6.9	%
Common stock book value per share	$11.99		$12.87		$11.99		$12.87	

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

(2) Excludes effect of the premium amortization adjustment due to changes in long-term CPR estimates.

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

(4) Computed as the sum of debt, TBA derivative notional outstanding and net forward purchases of Investment Securities divided by total equity.

(5) Represents the ratio of stockholders' equity to total assets (inclusive of total market value of TBA derivatives).

(6) Represents the sum of annualized economic net interest come, inclusive of interest expense on interest rate swaps used to hedge costs of funds, plus TBA dollar roll income less interest expense on interest rate swaps used to hedge dollar roll transactions divided by the sum of average Interest Earning Assets plus average outstanding TBA contract balances.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
Item 2. Management's Discussion and Analysis

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

GAAP
Net income (loss) was ($627.5) million, which includes ($0.2) million attributable to a noncontrolling interest, or ($0.68) per average basic common share, for the quarter ended September 30, 2015 compared to $354.9 million, or $0.36 per average basic common share, for the same period in 2014. We attribute the majority of the change in net income (loss) to the unfavorable change in unrealized gains (losses) on interest rate swaps and lower interest income. Unrealized gains (losses) on interest rate swaps was ($822.6) million for the quarter ended September 30, 2015 compared to $98.6 million for the same period in 2014, reflecting lower forward interest rates for the quarter ended September 30, 2015 compared to rising forward interest rates during the same period in 2014. Interest income decreased $193.8 million, primarily due to lower average interest earning assets and higher amortization expense on Investment Securities during the quarter ended September 30, 2015 compared to the same period in 2014.

Net income (loss) was ($203.9) million, which includes ($0.4) million attributable to a noncontrolling interest, or ($0.27) per average basic common share, for the nine months ended September 30, 2015 compared to ($184.0) million, or ($0.25) per average basic common share, for the same period in 2014. We attribute the majority of the change in net income (loss) to an increase in unrealized losses on interest rate swaps and lower interest income, partially offset by decreases in realized losses on termination of interest rate swaps, realized losses on interest rate swaps and net losses on trading assets. Unrealized losses on interest rate swaps was ($588.0) million for the nine months ended September 30, 2015 compared to ($75.3) million for the same period in 2014, reflecting unfavorable marks on interest rate swaps due to falling forward interest rates. Interest income decreased $390.2 million, primarily due to lower coupon income on lower average Interest Earning Assets and higher amortization expense, reflecting a higher projected CPR, during the nine months ended September

Non-GAAP
Core earnings was $217.6 million, or $0.21 per average basic common share, for the quarter ended September 30, 2015 compared to $300.7 million, or $0.30 per average basic common share, for the same period in 2014. Normalized core earnings was $313.6 million, or $0.31 per average common share, for the quarter ended September 30, 2015 compared to $334.6 million, or $0.33 per average common share, for the quarter ended September 30, 2014. Normalized core earnings declined during the quarter ended September 30, 2015 compared to the same period in 2014 primarily due to lower interest income, reflecting an $11.6 billion decline in average Interest Earning Assets and lower weighted average coupons.

Core earnings was $882.7 million, or $0.87 per average basic common share, for the nine months ended September 30, 2015 compared to $848.8 million, or $0.84 per average basic common share, for the same period in 2014. Normalized core earnings was $974.2 million, or $0.97 per average common share, for the nine months ended September 30, 2015 compared to $842.6 million, or $0.83 per average common share, for the nine months ended September 30, 2014. Normalized core earnings increased during the nine months ended September 30, 2015 compared to the same period in 2014 primarily due to a $185.4 million decline in interest expense on interest rate swaps and a $22.0 million increase in interest income on the commercial investment portfolio, partially offset by a $70.0 million increase in premium amortization expense exclusive of the premium amortization adjustment.

Non-GAAP Financial Measures

This Management Discussion and Analysis section contains analysis and discussion of non-GAAP measurements. The non-GAAP measurements include the following:

- core earnings;
- normalized core earnings;
- core earnings per average basic common share;
- normalized core earnings per average basic common share;

30, 2015 compared to the same period in 2014. Realized losses on termination of interest rate swaps decreased $552.9 million to ($226.5) million for the nine months ended September 30, 2015 as fewer swaps positions were terminated during the nine months ended September 30, 2015 compared to the same period in 2014. Realized losses on interest swaps decreased $185.4 million to ($465.0) million for the nine months ended September 30, 2015 relecting lower swap positions and lower net rates compared to the same period in 2014. Net losses on trading assets decreased $175.1 million to ($13.0) million for the nine months ended September 30, 2015 primarily attributable to a favorable change in gains (losses) related to TBA derivatives, partially offset by higher losses on futures contracts.

normalized interest income;
economic interest expense;
economic net interest income; and
normalized economic net interest income

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
Item 2. Management's Discussion and Analysis

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 financial instruments measured at fair value through earnings, 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, and inclusive of TBA dollar roll income (a component of Net gains (losses) on trading assets).

Normalized core earnings represents a non-GAAP measure and is defined as core earnings excluding the Premium Amortization Adjustment (or PAA). PAA is &# the component of premium amortization representing the change in estimated long-term constant prepayment rates.

We believe that core earnings, normalized core earnings, core earnings per average basic common share, normalized core earnings per average basic common share, normalized interest income, economic interest expense, economic net interest income and normalized 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