## Annaly Capital Management, Inc.

### NLY - NEUTRAL - Lowering PT to $13 From $14 in Anticipation of Declining Profitability

November 2, 2011

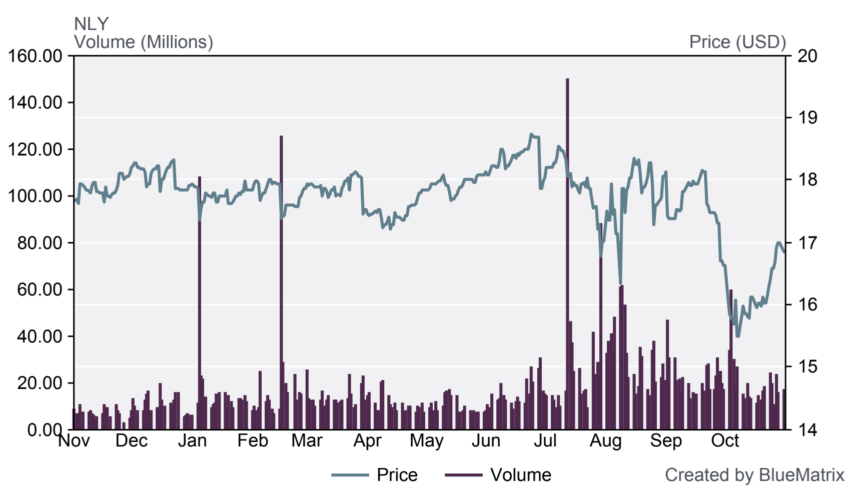
**Reducing PT and EPS, BVPS, and Dividend Estimates.** We are reducing our NLY price target to $13 in anticipation of a FY12E BVPS of $16.22 versus our prior $17.14 estimate. We believe NLY's interest margin may tighten faster than anticipated, and we are proactively reducing our forecasts as a result.

**GAAP and Core EPS Below Our Estimate.** NLY had 3Q11 GAAP EPS of ($0.98) and continuing (ex-unrealized swap and IO losses) EPS of $0.65 versus our $0.66 GAAP estimate. A slower-than-expected deployment of July's capital raise resulted in less interest income and interest expense than our forecast.

**Interest Spread Tightening.** NLY's 3Q11 annualized interest rate spread was 2.08% versus 2.45% in 2Q11. Based on assets at quarter-end, NLY estimated an interest spread of 1.96%. This forecast is lower than our estimate for 4Q11, and our updated model assumes the pressure on profitability continues into 2012.

**Prepay Speeds Rising Faster Than Anticipated.** NLY's CPR increased to 18% sequentially from 11% in 2Q11. We expected a CPR of 14% in 3Q11, and we raised our CPR expectations to 18% from 14% for 4Q11 and FY12 under the assumption mortgage rates remain near current levels and encourage future prepays.

**Conference Call Scheduled for 9:00am EDT Today.** NLY has scheduled a conference call today at 9:00am EDT to discuss 3Q results. The dial-in is 866-843-0890; the passcode is 2870365.

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## NLY NEUTRAL

### EARNINGS RELEASE

SHARE PRICE $16.66
PRICE TARGET $13.00

| Adjusted EPS (FY Dec) | 1Q | 2Q | 3Q | 4Q | FY |
|---|---|---|---|---|---|
| 2010 | 0.71 | 0.66 | 0.70 | 0.60 | 2.67 |
| *Prior* | — | — | — | — | — |
| P/E | | | | | 6.2x |
| 2011 | 0.70 | 0.71 | 0.65 | 0.57E | 0.47E |
| *Prior* | — | — | — | — | — |
| P/E | | | | | 35.4x |
| 2012 | 0.48E | 0.48E | 0.49E | 0.53E | 1.97E |
| *Prior* | — | — | — | — | — |
| P/E | | | | | 8.5x |

| BVPS (FY Dec) | 1Q | 2Q | 3Q | 4Q | FY |
|---|---|---|---|---|---|
| 2010 | 16.80 | 16.89 | 15.16 | 15.34 | 15.34 |
| Price/Book | | | | | 1.1x |
| 2011 | 15.76 | 16.55 | 16.22 | 16.22E | 16.22E |
| *Prior* | — | — | *16.82* | *16.90E* | *16.90E* |
| Price/Book | | | | | 1.0x |
| 2012 | 16.22E | 16.22E | 16.22E | 16.22E | 16.22E |
| *Prior* | *16.99E* | *17.05E* | *17.09E* | *17.14E* | *17.14E* |
| Price/Book | | | | | 1.0x |

| EPS (FY Dec) | 1Q | 2Q | 3Q | 4Q | FY |
|---|---|---|---|---|---|
| 2010 | 0.50 | (0.40) | (0.03) | 1.84 | 2.04 |
| P/E | | | | | 8.2x |
| 2011 | 0.89 | 0.14 | (0.98) | 0.57E | 0.47E |
| *Prior* | — | — | *0.66* | *0.73E* | *2.34E* |
| P/E | | | | | 35.4x |
| 2012 | 0.48E | 0.48E | 0.49E | 0.53E | 1.97E |
| *Prior* | *0.75E* | *0.74E* | *0.71E* | *0.68E* | *2.87E* |
| P/E | | | | | 8.5x |

| Dividend Per Share (FY Dec) | 1Q | 2Q | 3Q | 4Q | FY |
|---|---|---|---|---|---|
| 2010 | 0.65 | 0.68 | 0.68 | 0.64 | 2.65 |
| 2011 | 0.62 | 0.65 | 0.60 | 0.56E | 2.43E |
| *Prior* | — | — | — | *0.66E* | *2.53E* |
| 2012 | 0.47E | 0.47E | 0.48E | 0.52E | 1.93E |
| *Prior* | *0.68E* | *0.67E* | *0.64E* | *0.61E* | *2.60E* |

| Market Data | |
|---|---|
| Dividend | $2.51 |
| Dividend Yield | 15.1% |
| 52-Week Range | $14.05 - $18.79 |
| Shares Out (M) | 969.1 |
| Market Cap ($M) | $16,145 |
| ADV (3 mo; 000) | 25,065 |

## Exhibit 1: NLY Reported "Core" EPS of $0.65 in 3Q11 Versus Our $0.66 Estimate

**(Third-quarter earnings analysis, amts as indicated)**

| **NLY-3Q11 results** **INCOME STMT (amts in millions of $ except per share data)** | Quarter ended **Sep-10** | **Sep-11** | **% chg** | **Comments** |
|---|---|---|---|---|
| Investment securities | 700.964 | 926.558 | 32 | Portfolio was 90% fixed TY |
| Securities loaned | 1.261 | 1.942 | 54 | |
| U.S. Treasury securities | 0.751 | 2.302 | 207 | |
| Total interest income | 702.976 | 930.802 | 32 | |
| Total interest expense | 113.932 | 121.417 | 7 | |
| Net interest income | 589.044 | 809.385 | 37 | |
| | | | | |
| Investment advisory and service fees | 15.343 | 20.828 | 36 | |
| Gain on sale of investment securities | 61.986 | 91.668 | 48 | |
| Dividend income | 8.097 | 8.706 | 8 | |
| Net gain on trading securities | 1.082 | 1.942 | 79 | |
| Unrealized gains (losses) on Int-only Agency MBS | 0.000 | (39.321) | NM | |
| Income from underwriting | 0.915 | 2.772 | 203 | |
| Realized gains (losses) from interest rate swaps | (188.636) | (231.849) | 23 | Includes interest expense on swaps |
| Unrealized gains (losses) from interest rate swaps | (448.253) | (1,505.333) | 236 | |
| Total other income (loss) | (549.466) | (1,650.587) | 200 | |
| General and administrative expenses | 43.430 | 65.194 | 50 | |
| Income taxes | 11.076 | 15.417 | 39 | |
| Income (loss) from investment in affiliate | 0.868 | 0.000 | (100) | |
| | | | | |
| GAAP net (loss) income | (14.060) | (921.813) | 6456 | |
| Dividends | 4.515 | 4.172 | (8) | |
| Net (loss) income available toshareholders | (18.575) | (925.985) | 4885 | |
| EPS-diluted | (0.03) | (0.98) | 3116 | |
| EPS-basic | (0.03) | (0.98) | 3116 | |
| Diluted shares | 611.905 | 948.546 | 55 | |
| Basic shares | 611.905 | 948.546 | 55 | |
| **CORE EARNINGS RECONCILIATION (amts in millions of $ except per share data)** | | | | |
| GAAP Net (loss) income | (14.060) | (921.813) | 6456 | |
| Unrealized (loss) gain on interest rate swaps | (448.253) | (1,505.333) | 236 | |
| Gain on sale of investment securities | 0.000 | (39.321) | NM | |
| Core earnings | 434.193 | 622.841 | 43 | |
| Core earnings per share | 0.70 | 0.65 | (7) | We expected $0.66 |
| **MARGINS (% to investment income)** | | | | |
| Net interest margin | 83.8 | 87.0 | | |
| Net income | (2.6) | (99.5) | | |
| **BALANCE SHEET (amts in millions of $ except per share data)** | | | | |
| MBS | 76,174.141 | 106,588.710 | 40 | |
| Cash and cash equivalents | 289.486 | 3,473.866 | 1100 | |
| Repurchase Agreements | 61,040.668 | 86,495.905 | 42 | |
| Total shareholders' equity | 9,587.386 | 15,910.022 | 66 | |
| Book value per share | 15.16 | 16.22 | | Calculated TY on 969.913mm shs and excludes $177.1mm equity on A class preferred |
| **PORTFOLIO STATISTICS (%)** | | | | |
| Constant prepayment rate | 20.00 | 18.00 | | CPR of 18% vs. 11% last qtr. |
| Leverage at period-end | 6.40 | 5.50 | | |
| Annualized portfolio yield | 4.06 | 3.71 | | |
| Annualized cost of funds | 1.95 | 1.63 | | |
| Annualized interest rate spread | 2.11 | 2.08 | | |

**Source: NLY 3Q11 press release dated 11/1/2011**

# Risks

- **Book Value Risk from Falling RMBS Prices.** Since our valuations are predicated on stable and growing book values, we think declines in RMBS prices, and asset values by consequence, are the biggest risk to our valuation and views on mREITs. We anticipate mortgage rates and the yield curve should remain at or near current levels based on current U.S. economic activity. However, if inflation threats or government policymakers force longer-term interest rates higher, we believe RMBS prices would decline, which could lower our book value estimates and price targets.
- **Rising Short-Term Rates Compressing the Net Interest Margin on the Carry Trade (Reinvestment Risk).** Our second risk is a rise in short-term rates that would raise repo rates and reduce the profitability of the carry trade. We anticipate any rise in short-term rates would be in concert with a rise in long-term rates, which theoretically should preserve the net interest margin as RMBS principal payments are reinvested in higher yielding instruments by the mREITs. If the yield curve becomes inverted with higher short-term rates than long-term rates, we think the average mREIT net interest margin would become compressed and reduce future dividend yields, as mREITs would either have to lower leverage or seek long-term financing to maintain the asset base.
- **The SEC Strips Public mREITs' Exemption from the Investment Company Act of 1940.** We think it could be months before any announcement about the future of mREITs' exemption under the ICA40 Act may be released. As such, we do not foresee a near-term risk to our thesis. Longer term, we think mREITs' REIT status under the IRS code is not at risk based on the discussion in the SEC's comment request, but we do believe the ICA40 mandate of 3x asset coverage for any leverage would have a negative impact on our future EPS, book value, and dividend assumptions.
- **In Our View, Upside Risks for Price Appreciation Are Limited.** If the economy were growing more robustly, we think our outlook on mREITs would be less positive because the risk of higher interest rates and lower RMBS prices would be more pronounced and would likely require price targets closer to 0.6x forward price/book than 1.0x. We do not have a formal economic forecast, but for clients fearful of a no/slow-growth environment, we think the mREITs are an attractive investment opportunity over the next 12 months.

# Valuation

We are maintaining our NEUTRAL rating and lowering our price target to $13 from $14 on NLY. Our price target represents a 0.8x multiple on our FY12E book value per share of $16.22 and assumes an FY12E dividend yield of 13.0%.

SECTOR: **MORTGAGE REITS** **November 2, 2011**

## Annaly Capital Management (NLY)

| **Income statement (amts in millions of $ except per share data)** | **FY10** | **1Q11** | **2Q11** | **3Q11** | **4Q11E** | **FY11E** | **1Q12E** | **2Q12E** | **3Q12E** | **4Q12E** | **FY12E** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Interest income** | | | | | | | | | | | |
| Investment securities | 2,676.307 | 837.880 | 948.703 | 926.558 | 1,024.244 | 3,737.385 | 925.464 | 925.464 | 945.771 | 980.463 | 3,777.162 |
| Securities loaned | 3.997 | 1.343 | 6.497 | 1.942 | 1.942 | 11.724 | 1.942 | 1.942 | 1.942 | 1.942 | 7.768 |
| U S Treasury Securities | 2.830 | 4.825 | 1.868 | 2.302 | 2.302 | 11.297 | 2.302 | 2.302 | 2.302 | 2.302 | 9.208 |
| Total interest income | 2,683.134 | 844.048 | 957.068 | 930.802 | 1,028.488 | 3,760.406 | 929.708 | 929.708 | 950.015 | 984.707 | 3,794.138 |
| **Interest expense** | | | | | | | | | | | |
| Repurchase agreements | 397.971 | 102.602 | 100.164 | 109.014 | 116.249 | 428.029 | 120.354 | 120.654 | 120.654 | 120.654 | 482.315 |
| Interest expense on swaps | 735.107 | 206.148 | 216.760 | 231.849 | 253.125 | 907.882 | 253.758 | 254.391 | 254.391 | 254.391 | 1,016.930 |
| Convertible Senior Notes | 24.228 | 6.767 | 6.900 | 8.798 | 8.798 | 31.263 | 8.798 | 8.798 | 8.798 | 8.798 | 35.192 |
| Securities borrowed | 3.377 | 1.101 | 1.484 | 1.496 | 0.000 | 4.081 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| U S Treasury Securities sold not yet purchased | 2.649 | 4.986 | 4.772 | 2.109 | 0.000 | 11.867 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Total interest expense | 1,163.332 | 321.604 | 330.080 | 353.266 | 378.172 | 1,383.122 | 382.910 | 383.842 | 383.842 | 383.842 | 1,534.437 |
| Net interest income | 1,519.802 | 522.444 | 626.988 | 577.536 | 650.316 | 2,377.284 | 546.799 | 545.866 | 566.172 | 600.864 | 2,259.701 |
| **Other (loss) income** | | | | | | | | | | | |
| Investment advisory and service fees | 58.073 | 17.207 | 20.710 | 20.828 | 20.828 | 79.573 | 20.828 | 20.828 | 20.828 | 20.828 | 83.312 |
| Gain on sale of Mortgage-Backed Securities and Agency debentures | 181.791 | 27.185 | 7.336 | 91.668 | 0.000 | 126.189 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Dividend income | 31.038 | 6.297 | 8.230 | 8.706 | 8.706 | 31.939 | 8.706 | 8.706 | 8.706 | 8.706 | 34.824 |
| Loss on other-than-temporarily impaired securities | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Loss on receivable from Prime Broker | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Net (loss) gain on trading securities | (2.351) | 18.812 | (5.436) | (37.379) | 0.000 | (24.003) | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Income from underwriting | 2.095 | 2.904 | (0.077) | 2.772 | 0.000 | 5.599 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Total other (loss) income | 270.646 | 72.405 | 30.763 | 86.595 | 29.534 | 219.297 | 29.534 | 29.534 | 29.534 | 29.534 | 118.136 |
| **Swap income/(loss)** | | | | | | | | | | | |
| Unrealized gain (loss) on interest rate swaps | (318.832) | 169.308 | (466.943) | (1,505.333) | 0.000 | (1,802.968) | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Total income/(loss) on swaps | (318.832) | 169.308 | (466.943) | (1,505.333) | 0.000 | (1,802.968) | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| **Expenses** | | | | | | | | | | | |
| Distribution fees | 0.360 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| General and administrative expenses | 171.487 | 51.827 | 57.229 | 65.194 | 69.521 | 243.771 | 69.521 | 69.521 | 69.521 | 69.521 | 278.086 |
| Total expenses | 171.847 | 51.827 | 57.229 | 65.194 | 69.521 | 243.771 | 69.521 | 69.521 | 69.521 | 69.521 | 278.086 |
| Income before income from equity method investment and income taxes | 1,299.769 | 712.330 | 133.579 | (906.396) | 610.328 | 549.841 | 506.811 | 505.879 | 526.185 | 560.877 | 2,099.752 |
| Income (loss) from equity method investment | 2.945 | 1.140 | 0.000 | 0.000 | 0.000 | 1.140 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Income taxes | (35.434) | 13.575 | 12.762 | 15.417 | 61.033 | 102.787 | 50.681 | 50.588 | 52.618 | 56.088 | 209.975 |
| Net income | 1,267.280 | 699.895 | 120.817 | (921.813) | 549.296 | 448.195 | 456.130 | 455.291 | 473.566 | 504.789 | 1,889.776 |
| Noncontrolling interest | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Net income attributable to controlling interest | 1,267.280 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Dividends on preferred stock | 18.033 | 4.267 | 4.267 | 4.172 | 4.172 | 16.878 | 4.172 | 4.172 | 4.172 | 4.172 | 16.688 |
| Net income available to common shareholders | 1,249.247 | 695.628 | 116.550 | (925.985) | 545.124 | 431.317 | 451.958 | 451.119 | 469.394 | 500.617 | 1,873.088 |
| **Net income available per share to common shareholders** | | | | | | | | | | | |
| Diluted (actual) | 2.04 | 0.89 | 0.14 | (0.98) | 0.57 | 0.47 | 0.48 | 0.48 | 0.49 | 0.53 | 1.97 |
| Basic (actual) | 2.12 | 0.85 | 0.14 | (0.98) | 0.57 | 0.45 | 0.48 | 0.48 | 0.49 | 0.53 | 1.97 |
| **Weighted average number of common shares outstanding** | | | | | | | | | | | |
| Diluted (#) | 625.307 | 790.994 | 827.755 | 948.546 | 948.546 | 908.282 | 948.546 | 948.546 | 948.546 | 948.546 | 948.546 |
| Basic (#) | 588.193 | 815.547 | 841.653 | 948.546 | 948.546 | 948.546 | 948.546 | 948.546 | 948.546 | 948.546 | 948.546 |
| Net income attributable to controlling interest before Other comprehensive income (loss) | 1,267.280 | 699.895 | 120.817 | (921.813) | 549.296 | 448.195 | 456.130 | 455.291 | 473.566 | 504.789 | 1,889.776 |
| **Other comprehensive income (loss)** | | | | | | | | | | | |
| Unrealized (loss) gain on available-for-sale securities | (639.783) | (142.227) | 1,047.639 | 0.000 | 0.000 | 905.412 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Unrealized gain on interest rate swaps | 94.899 | 14.298 | 0.000 | 1,115.325 | 0.000 | 1,129.623 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Reclassification adjustment for net (gains) losses included in net income | (181.791) | (27.185) | (7.336) | (91.668) | 0.000 | (126.189) | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Other comprehensive (loss) income | (726.675) | (155.114) | 1,040.303 | 1,023.657 | 0.000 | 1,908.846 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Comprehensive income attributable to controlling interest | 540.605 | 544.781 | 1,161.120 | 101.844 | 549.296 | 2,357.041 | 456.130 | 455.291 | 473.566 | 504.789 | 1,889.776 |
| Dividends per share | 2.65 | 0.62 | 0.65 | 0.60 | 0.56 | 2.43 | 0.47 | 0.47 | 0.48 | 0.52 | 1.93 |

Source: Company SEC documents, Guggenheim Securities, LLC estimates

SECTOR: **MORTGAGE REITS** **November 2, 2011**

## Annaly Capital Management (NLY)

| ***Growth rates*** | FY10 | 1Q11 | 2Q11 | 3Q11 | 4Q11E | FY11E | 1Q12E | 2Q12E | 3Q12E | 4Q12E | FY12E |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Agency MBS income | -8.4% | 28.1% | 47.6% | 32.2% | 50.9% | 39.6% | 10.5% | -2.4% | 2.1% | -4.3% | 1.1% |
| Total interest income | -8.2% | 29.0% | 48.7% | 32.4% | 50.8% | 40.1% | 10.1% | -2.9% | 2.1% | -4.3% | 0.9% |
| Total interest expense | -10.2% | 16.3% | 17.8% | 16.8% | 24.4% | 18.9% | 19.1% | 16.3% | 8.7% | 1.5% | 10.9% |
| Net interest income | -6.6% | 38.3% | 72.5% | 44.2% | 72.0% | 56.4% | 4.7% | -12.9% | -2.0% | -7.6% | -4.9% |
| Operating and other expense | 30.3% | 28.3% | 37.8% | 50.1% | 49.5% | 41.9% | 34.1% | 21.5% | 6.6% | 0.0% | 14.1% |
| Net income available to common | -35.7% | 151.6% | -152.3% | 4885.1% | -55.1% | -65.5% | -35.0% | 287.1% | -150.7% | -8.2% | 334.3% |
| | | | | | | | | | | | |
| ***Margins*** | | | | | | | | | | | |
| Net interest margin (includes realized swaps) | 84.0% | 86.3% | 88.2% | 87.0% | 87.8% | 87.4% | 86.1% | 86.1% | 86.4% | 86.9% | 86.4% |
| Interest exp/total int inc (excluding swaps) | 43.4% | 38.1% | 34.5% | 38.0% | 36.8% | 36.8% | 41.2% | 41.3% | 40.4% | 39.0% | 40.4% |
| Operating & other exp/total int inc | 6.4% | 6.1% | 6.0% | 7.0% | 6.8% | 6.5% | 7.5% | 7.5% | 7.3% | 7.1% | 7.3% |
| Common net income/total int income | 46.6% | 82.4% | 12.2% | -99.5% | 53.0% | 11.5% | 48.6% | 48.5% | 49.4% | 50.8% | 49.4% |

## Annaly Capital Management (NLY)

| **Balance sheet (amts in millions of $ except per share data)** | FY10 | 1Q11 | 2Q11 | 3Q11 | 4Q11E | FY11E | 1Q12E | 2Q12E | 3Q12E | 4Q12E | FY12E |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | | | | |
| Cash and cash equivalents | 282.626 | 357.012 | 401.844 | 3,473.866 | 38.259 | 38.259 | 401.667 | 400.828 | 420.166 | 453.205 | 453.205 |
| U S Treasury Securities at fair value | 1,100.447 | 1,088.657 | 748.118 | 172.892 | 172.892 | 172.892 | 172.892 | 172.892 | 172.892 | 172.892 | 172.892 |
| Reverse repurchase agreements with affiliate | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Reverse repurchase agreements | 1,006.163 | 1,348.069 | 593.865 | 360.315 | 360.315 | 360.315 | 360.315 | 360.315 | 360.315 | 360.315 | 360.315 |
| Securities borrowed at fair value | 216.676 | 368.714 | 519.929 | 1,052.810 | 1,052.810 | 1,052.810 | 1,052.810 | 1,052.810 | 1,052.810 | 1,052.810 | 1,052.810 |
| Mortgage-Backed Securities at fair value | 78,440.330 | 93,644.409 | 96,773.448 | 106,588.710 | 109,850.043 | 109,850.043 | 109,850.043 | 109,850.043 | 109,850.043 | 109,850.043 | 109,850.043 |
| Agency debentures at fair value | 1,108.261 | 414.660 | 703.093 | 824.092 | 824.092 | 824.092 | 824.092 | 824.092 | 824.092 | 824.092 | 824.092 |
| Corporate debt | 21.683 | 21.224 | 27.982 | 27.988 | 27.988 | 27.988 | 27.988 | 27.988 | 27.988 | 27.988 | 27.988 |
| Investments with affiliates | 252.863 | 303.713 | 261.659 | 209.374 | 209.374 | 209.374 | 209.374 | 209.374 | 209.374 | 209.374 | 209.374 |
| Equity securities | 0.000 | 0.000 | 0.000 | 3.929 | 3.929 | 3.929 | 3.929 | 3.929 | 3.929 | 3.929 | 3.929 |
| Receivable for Mortgage-Backed Securities sold | 151.460 | 320.465 | 40.751 | 402.817 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Accrued interest and dividends receivable | 345.250 | 391.356 | 386.160 | 410.862 | 410.862 | 410.862 | 410.862 | 410.862 | 410.862 | 410.862 | 410.862 |
| Receivable from Prime Broker | 3.272 | 3.272 | 3.272 | 3.272 | 3.272 | 3.272 | 3.272 | 3.272 | 3.272 | 3.272 | 3.272 |
| Receivable for advisory and service fees | 16.172 | 16.631 | 19.666 | 19.656 | 19.656 | 19.656 | 19.656 | 19.656 | 19.656 | 19.656 | 19.656 |
| Intangible for customer relationships net | 9.290 | 8.990 | 12.141 | 11.531 | 11.531 | 11.531 | 11.531 | 11.531 | 11.531 | 11.531 | 11.531 |
| Goodwill | 42.030 | 42.030 | 42.030 | 42.030 | 42.030 | 42.030 | 42.030 | 42.030 | 42.030 | 42.030 | 42.030 |
| Interest rate swaps at fair value | 2.561 | 8.879 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Other derivative contracts at fair value | 2.607 | 1.539 | 0.767 | 1.450 | 1.450 | 1.450 | 1.450 | 1.450 | 1.450 | 1.450 | 1.450 |
| Other assets | 24.899 | 87.988 | 22.282 | 26.112 | 28.852 | 28.852 | 26.081 | 26.081 | 26.651 | 27.624 | 27.624 |
| Total assets | 83,026.590 | 98,427.608 | 100,557.007 | 113,631.706 | 113,057.356 | 113,057.356 | 113,417.993 | 113,417.153 | 113,437.061 | 113,471.073 | 113,471.073 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | | | | | | | | | |
| Liabilities | | | | | | | | | | | |
| U S Treasury Securities sold not yet purchased at fair value | 909.462 | 788.898 | 491.740 | 549.505 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Repurchase agreements | 65,533.537 | 79,983.914 | 78,447.165 | 86,495.905 | 92,348.891 | 92,348.891 | 92,810.635 | 92,810.635 | 92,810.635 | 92,810.635 | 92,810.635 |
| Securities loaned at fair value | 217.841 | 359.852 | 447.330 | 907.061 | 907.061 | 907.061 | 907.061 | 907.061 | 907.061 | 907.061 | 907.061 |
| Payable for Mortgage-Backed Securities and Agency debentures purchased | 4,575.026 | 2,533.909 | 4,824.618 | 5,852.986 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Convertible Senior Notes | 600.000 | 600.000 | 600.000 | 557.045 | 557.045 | 557.045 | 557.045 | 557.045 | 557.045 | 557.045 | 557.045 |
| Accrued interest payable | 115.766 | 113.101 | 122.753 | 128.371 | 128.371 | 128.371 | 128.371 | 128.371 | 128.371 | 128.371 | 128.371 |
| Dividends payable | 404.220 | 498.697 | 539.970 | 581.752 | 545.124 | 545.124 | 451.958 | 451.119 | 469.394 | 500.617 | 500.617 |
| Interest rate swaps at fair value | 754.439 | 577.150 | 1,035.215 | 2,540.558 | 2,540.558 | 2,540.558 | 2,540.558 | 2,540.558 | 2,540.558 | 2,540.558 | 2,540.558 |
| Other derivative contracts at fair value | 2.446 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Accounts payable and other liabilities | 8.921 | 79.087 | 78.895 | 74.837 | 82.691 | 82.691 | 74.749 | 74.749 | 76.382 | 79.171 | 79.171 |
| Total liabilities | 73,121.658 | 85,534.608 | 86,587.686 | 97,688.020 | 97,109.741 | 97,109.741 | 97,470.378 | 97,469.538 | 97,489.446 | 97,523.458 | 97,523.458 |
| Total stockholders' equity | 9,864.900 | 12,853.017 | 13,929.362 | 15,910.022 | 15,910.022 | 15,910.022 | 15,910.022 | 15,910.022 | 15,910.022 | 15,910.022 | 15,910.022 |
| Total liabilities Series B Cumulative Convertible Preferred Stock and stockholders' equity | 83,026.590 | 98,427.608 | 100,557.007 | 113,631.706 | 113,053.427 | 113,053.427 | 113,414.064 | 113,413.224 | 113,433.132 | 113,467.144 | 113,467.144 |
| | | | | | | | | | | | |
| **RATIOS** | | | | | | | | | | | |
| Debt/equity (x) | 670.4% | 627.0% | 567.5% | 547.2% | 583.9% | 583.9% | 586.8% | 586.8% | 586.8% | 586.8% | 586.8% |
| Book value per share ($) | 15.34 | 15.76 | 16.55 | 16.22 | 16.22 | 16.22 | 16.22 | 16.22 | 16.22 | 16.22 | 16.22 |
| Recent price ($) | 17.92 | 17.45 | | | | | | | | | |
| Price/book (X) | 1.17 | 1.11 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Assets/debt (%) | 113.6% | 115.2% | 116.2% | 116.4% | 116.5% | 116.5% | 116.5% | 116.5% | 116.4% | 116.4% | 116.4% |

Source: Company SEC documents, Guggenheim Securities, LLC estimates

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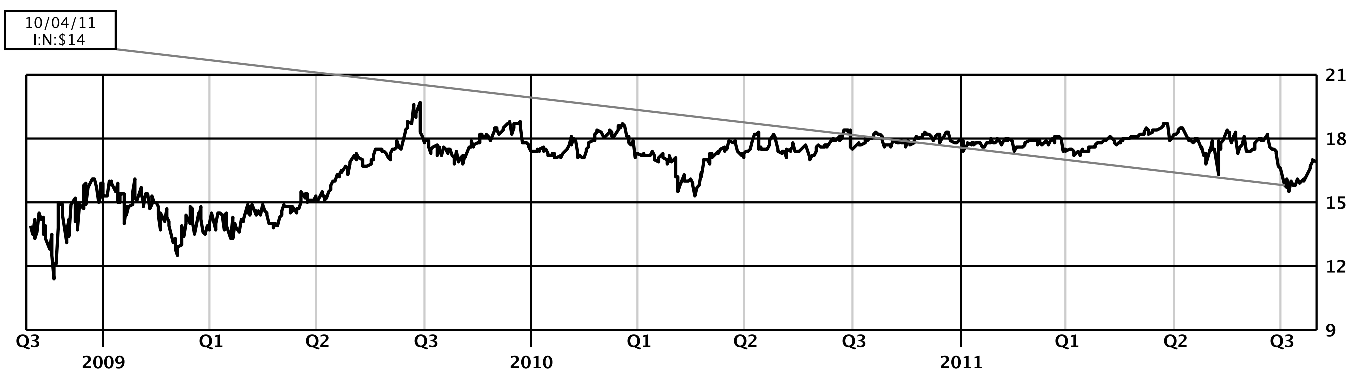
**Rating and Price Target History for: Annaly Capital Management, Inc. (NLY) as of 10-31-2011**

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| | | | IB Serv./ Past 12Mos. | |
|---|---|---|---|---|
| Rating Category | Count | Percent | Count | Percent |
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| Neutral | 64 | 56.10% | 0 | 0.00% |
| Sell | 1 | 0.90% | 0 | 0.00% |

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