ANNALY CAPITAL MANAGEMENT INC
Form 10-Q
November 07, 2013

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED: SEPTEMBER 30, 2013

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, SUITE 2902
NEW YORK, NEW YORK
(Address of principal executive offices)

10036
(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 November 6, 2013
Common Stock, $.01 par value	947,403,794

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FORM 10-Q
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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 amounts)

ASSETS	September 30, 2013 (Unaudited)	December 31, 2012(1)
Cash and cash equivalents	$ 1,122,722	$ 615,789
Reverse repurchase agreements	31,074	1,811,095
Securities borrowed	3,439,954	2,160,942
Investments, at fair value:		
U.S. Treasury securities (including pledged assets of $2,239,140 and $752,076, respectively)	2,459,617	752,076
Agency mortgage-backed securities (including pledged assets of $70,612,725 and $107,466,084, respectively)	79,902,834	123,963,207
Agency debentures (including pledged assets of $3,089,158 and $981,727, respectively)	3,128,853	3,009,568
Investments in affiliates	136,748	234,120
Commercial real estate debt and preferred equity	1,227,182	-
Investments in commercial real estate	60,424	-
Corporate debt, held for investment	75,988	63,944
Receivable for investments sold	934,964	290,722
Accrued interest and dividends receivable	297,161	419,259
Receivable for investment advisory income (including from affiliates of $6,653 and $14,077, respectively)	10,055	17,730
Intangible for customer relationships (net of accumulated amortization of $2,028 and $5,779, respectively)	4,572	6,989
Goodwill	103,245	55,417
Interest rate swaps, at fair value	360,373	-
Other derivative contracts, at fair value	85,180	9,830
Other assets	52,211	41,607
Total Assets	$ 93,433,157	$ 133,452,295
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
U.S. Treasury securities sold, not yet purchased, at fair value	$ 2,403,524	$ 495,437
Repurchase agreements	69,211,309	102,785,697
Securities loaned	3,299,090	1,808,315
Payable for investments purchased	2,546,467	8,256,957
Payable for share buyback program	-	141,149
Convertible Senior Notes	824,512	825,541
Mortgages payable	19,346	-
Participation sold	14,164	-
Accrued interest payable	162,755	186,896
Dividends payable	331,557	432,154
Interest rate swaps, at fair value	1,504,258	2,584,907

Other derivative contracts, at fair value		125,468		-
Accounts payable and other liabilities		44,983		10,798
Total Liabilities		80,487,433		117,527,851
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, respectively		445,457		445,457
Common stock, par value $0.01 per share, 1,956,937,500 authorized, 947,304,761 and 947,213,204, issued and outstanding, respectively		9,473		9,472
Additional paid-in capital		14,759,738		14,740,774
Accumulated other comprehensive income (loss)		(1,454,790)		3,053,242
Accumulated deficit		(1,281,756)		(2,792,103)
Total Stockholders' Equity		12,945,724		15,924,444
Total Liabilities and Stockholders' Equity	$	93,433,157	$	133,452,295

(1) Derived from the audited consolidated financial statements at December 31, 2012.

See notes to consolidated financial statements.

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

	For the Quarter Ended		For the Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Interest income:				
Investment Securities	$ 659,058	$ 751,739	$ 2,070,455	$ 2,477,147
U.S. Treasury securities	7,718	4,588	20,956	13,403
Securities loaned	1,787	2,581	6,701	7,797
Commercial real estate debt and preferred equity	26,066	-	39,972	-
Reverse repurchase agreements	2,461	2,225	8,872	3,769
Other	70	132	357	368
Total interest income	697,160	761,265	2,147,313	2,502,484
Interest expense:				
Repurchase agreements	120,123	158,150	419,132	411,643
Convertible Senior Notes	17,092	18,026	49,269	51,718
U.S. Treasury securities sold, not yet purchased	6,688	3,739	13,551	12,184
Securities borrowed	1,405	1,978	5,067	6,136
Participation sold	168	-	302	-
Total interest expense	145,476	181,893	487,321	481,681
Net interest income	551,684	579,372	1,659,992	2,020,803
Other income (loss):				
Investment advisory income	9,558	20,915	35,153	63,365
Net gains (losses) on disposal of investments	43,602	142,172	374,443	317,308
Net loss on extinguishment of Convertible Senior Notes	-	(87,328)	-	(87,328)
Dividend income from affiliates	4,048	7,097	14,527	21,239
Net gains (losses) on trading assets	(96,022)	1,368	(40,427)	7,729
Net unrealized gains (losses) on interest-only Agency mortgage-backed securities	(7,099)	(33,563)	184,549	(28,789)
Impairment of goodwill	-	-	(23,987)	-
Loss on previously held equity interest in CreXus	-	-	(18,896)	-
Other income (loss)	4,212	119	11,536	364
Subtotal	(41,701)	50,780	536,898	293,888
	(227,909)	(224,272)	(666,112)	(665,614)

Realized gains (losses) on interest rate swaps(1)				
Realized gains (losses) on termination of interest rate swaps	(36,658)	-	(88,685)	(2,385)
Unrealized gains (losses) on interest rate swaps	6,343	(104,197)	1,441,099	(373,773)
Subtotal	(258,224)	(328,469)	686,302	(1,041,772)
Total other income (loss)	(299,925)	(277,689)	1,223,200	(747,884)
General and administrative expenses:				
Compensation and management fee	41,774	52,310	123,981	164,860
Other general and administrative expenses	16,970	10,694	51,806	30,615
Total general and administrative expenses	58,744	63,004	175,787	195,475
Income (loss) before income taxes	193,015	238,679	2,707,405	1,077,444
Income taxes	557	13,921	6,456	42,039
Net income (loss)	192,458	224,758	2,700,949	1,035,405
Dividends on preferred stock	17,992	9,367	53,976	19,813
Net income (loss) available (related) to common shareholders	$ 174,466	$ 215,391	$ 2,646,973	$ 1,015,592
Net income (loss) per share available (related) to common shareholders:				
Basic	$ 0.18	$ 0.22	$ 2.79	$ 1.04
Diluted	$ 0.18	$ 0.22	$ 2.69	$ 1.00
Weighted average number of common shares outstanding:				
Basic	947,303,205	974,729,078	947,321,691	973,674,586
Diluted	955,690,471	997,007,829	995,319,670	1,035,365,251
Dividends Declared Per Share of Common Stock	$ 0.35	$ 0.50	$ 1.20	$ 1.60

Net income (loss)	$ 192,458	$ 224,758	$ 2,700,949	$ 1,035,405
Other comprehensive income (loss):				
Unrealized gains (losses) on available-for-sale securities	(121,942)	798,269	(4,133,589)	1,377,737
Reclassification adjustment for net (gains) losses included in net income (loss)	(43,602)	(141,982)	(374,443)	(317,118)
Other comprehensive income (loss)	(165,544)	656,287	(4,508,032)	1,060,619
Comprehensive income (loss)	$ 26,914	$ 881,045	$ (1,807,083)	$ 2,096,024

(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 Operations and Comprehensive Income (Loss).

See notes to consolidated financial statements.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(dollars in thousands, except per share amounts)
(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
BALANCE, DECEMBER 31, 2011	$177,088	-	-	$9,702	$15,068,870	$3,008,988	$(2,504,006)	$15,760,642
Net income (loss)	-	-	-	-	-	-	1,035,405	1,035,405
Unrealized gains (losses) on available-for-sale securities	-	-	-	-	-	1,377,737	-	1, 377,737
Reclassification adjustment for net (gains) losses included in net income (loss)	-	-	-	-	-	(317,118)	-	(317,118)
Exercise of stock options	-	-	-	5	6,056	-	-	6,061
Stock compensation expense	-	-	-	-	3,857	-	-	3,857
Conversion of Series B cumulative preferred stock	-	-	-	40	32,232	-	-	32,272
Net proceeds from direct purchase and dividend reinvestment	-	-	-	1	1,978	-	-	1,979
Contingent beneficial conversion feature on 4% Convertible Senior Notes	-	-	-	-	19,738	-	-	19,738
Equity component on 5% Convertible Senior Notes	-	-	-	-	11,717	-	-	11,717
Offering expenses	-	-	-	-	(248)	-	-	(248)
	-	290,514	-	-	-	-	-	290,514

Net proceeds from 7.625% Series C Cumulative Redeemable Preferred Stock offering								
Net proceeds from 7.50% Series D Cumulative Redeemable Preferred Stock offering	-	-	445,457	-	-	-	-	445,457
Preferred Series A dividends declared $1.477 per share	-	-	-	-	-	-	(10,945)	(10,945)
Preferred Series B dividends declared $0.375 per share	-	-	-	-	-	-	(289)	(289)
Preferred Series C dividends declared $0.715 per share	-	-	-	-	-	-	(8,579)	(8,579)
Common dividends declared, $1.60 per share	-	-	-	-	-	-	(1,557,537)	(1,557,537)
BALANCE, SEPTEMBER 30, 2012	$177,088	$290,514	$445,457	$9,748	$15,144,200	$4,069,607	$(3,045,951)	$17,090,663
BALANCE, DECEMBER 31, 2012	$177,088	$290,514	$445,457	$9,472	$14,740,774	$3,053,242	$(2,792,103)	$15,924,444
Net income (loss)	-	-	-	-	-	-	2,700,949	2,700,949
Unrealized gains (losses) on available-for-sale securities	-	-	-	-	-	(4,133,589)	-	(4,133,589)
Reclassification adjustment for net (gains) losses included in net income (loss)	-	-	-	-	-	(374,443)	-	(374,443)
Exercise of stock options	-	-	-	2	2,202	-	-	2,204
Stock compensation expense	-	-	-	(3)	1,765	-	-	1,762
Net proceeds from direct purchase and dividend reinvestment	-	-	-	2	2,164	-	-	2,166

Contingent beneficial conversion feature on 4% Convertible Senior Notes	-	-	-	-	12,833	-	-	12,833
Preferred Series A dividends declared $1.477 per share	-	-	-	-	-	-	(10,945)	(10,945)
Preferred Series C dividends declared $1.430 per share	-	-	-	-	-	-	(17,156)	(17,156)
Preferred Series D dividends declared $1.406 per share	-	-	-	-	-	-	(25,875)	(25,875)
Common dividends declared, $1.20 per share	-	-	-	-	-	-	(1,136,626)	(1,136,626)
BALANCE, SEPTEMBER 30, 2013	$177,088	$290,514	$445,457	$9,473	$14,759,738	$(1,454,790)	$(1,281,756)	$12,945,724

See notes to consolidated financial statements.

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

	For the Quarter Ended		For the Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Cash flows from operating activities:				
Net income (loss)	$ 192,458	$ 224,758	$ 2,700,949	$ 1,035,405
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Amortization of Investment Securities premiums and discounts, net	201,912	455,493	943,094	1,038,598
Amortization of commercial real estate investment premiums and discounts, net	(166)	-	326	-
Amortization of intangibles	1,968	634	2,614	1,858
Amortization of deferred expenses	2,038	2,189	6,114	4,927
Amortization of contingent beneficial conversion feature on convertible senior notes	4,604	1,438	11,804	15,498
Net (gains) losses on sales of Agency mortgage-backed securities and debentures	(43,602)	(142,172)	(374,443)	(317,308)
Net loss on extinguishment of 4% Convertible Senior Notes	-	87,328	-	87,328
Stock compensation expense	-	997	1,762	3,857
Impairment of goodwill	-	-	23,987	-
Loss on previously held equity interest in CreXus	-	-	18,896	-
Unrealized (gains) losses on interest rate swaps	(6,343)	104,197	(1,441,099)	373,773
Net unrealized (gains) losses on interest-only Agency mortgage-backed securities	7,099	33,563	(184,549)	28,789
Net (gains) losses on trading assets	96,022	(1,368)	40,427	(5,344)
	486,882,965	168,905,024	1,026,645,402	509,943,940

Proceeds from repurchase agreements of RCap				
Payments on repurchase agreements of RCap	(486,435,022)	(166,150,546)	(1,037,381,608)	(502,959,819)
Proceeds from reverse repurchase agreements of RCap	128,504,212	113,457,928	317,866,330	299,139,881
Payments on reverse repurchase agreements of RCap	(128,379,907)	(113,053,067)	(316,137,921)	(299,884,954)
Proceeds from reverse repurchase agreements of Shannon	168,110	185,640	812,204	409,380
Payments on reverse repurchase agreements of Shannon	(152,255)	(177,414)	(760,592)	(415,825)
Proceeds from securities borrowed	77,834,884	26,397,098	208,108,715	45,821,749
Payments on securities borrowed	(78,849,814)	(26,534,463)	(209,387,727)	(46,495,709)
Proceeds from securities loaned	156,424,768	59,324,108	372,155,568	125,183,976
Payments on securities loaned	(155,409,923)	(59,188,247)	(370,664,793)	(124,739,909)
Proceeds from U.S. Treasury securities	48,927,966	13,085,890	109,762,391	44,183,569
Payments on U.S. Treasury securities	(49,195,416)	(13,407,718)	(109,750,041)	(45,248,472)
Net payments on derivatives	18,428	(648)	(26,020)	(18,108)
Net change in:				
Due to / from brokers	24	-	683	-
Other assets	6,831	(3,226)	(11,297)	(1,072)
Accrued interest and dividends receivable	45,255	(4,812)	119,211	(16,942)
Receivable for investment advisory income	319	472	7,675	(721)
Accrued interest payable	(1,499)	6,683	(24,141)	42,537
Accounts payable and other liabilities	(35,048)	(11,767)	23,837	75,863
Net cash provided by (used in) operating activities	810,868	3,597,992	(6,892,242)	7,286,745
Cash flows from investing activities:				
Payments on purchases of Agency mortgage-backed securities and debentures	(5,330,035)	(21,398,098)	(31,529,258)	(59,518,222)
Proceeds from sales of Agency mortgage-backed securities and debentures	13,775,803	7,810,451	42,719,851	17,725,948

Principal payments on Agency mortgage-backed securities	4,487,669	9,943,910	19,550,338	25,197,941
Proceeds from Agency debentures called	-	327,385	2,147,205	1,177,548
Payments on purchase of corporate debt	(16,335)	(23,520)	(39,717)	(33,420)
Proceeds from corporate debt called	-	19,165	24,252	19,165
Principal payments on corporate debt	2,065	565	3,586	2,025
Acquisition of CreXus	(465)	-	(724,889)	-
Purchases of commercial real estate investments	(333,982)	-	(563,982)	-
Proceeds from sale of commercial real estate investments	20,192	-	20,192	-
Principal payments on commercial real estate investments	29,584	-	50,424	-
Earn out payment	-	-	-	(13,387)
Proceeds from derivatives	-	-	7,465	-
Proceeds from sales of equity securities	-	-	-	4,048
Net cash provided by (used in) investing activities	12,634,496	(3,320,142)	31,665,467	(15,438,354)

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Cash flows from financing activities:				
Proceeds from repurchase agreements	97,112,861	91,857,968	322,086,276	258,994,965
Principal payments on repurchase agreements	(109,746,830)	(90,340,097)	(344,924,458)	(249,043,825)
Proceeds from exercise of stock options	-	670	2,204	6,061
Net proceeds from Series C Preferred offering	-	-	-	290,514
Net proceeds from Series D Preferred offering	-	445,457	-	445,457
Net payment from extinguishment of 4% Convertible Senior Notes	-	(357,220)	-	(357,220)
Net proceeds from issuance of 5% Convertible Senior Notes offering	-	-	-	727,500
Net proceeds from direct purchases and dividend reinvestments	735	1,134	2,166	1,979
Net (payments) proceeds from follow-on offerings	-	(17)	-	(248)
Payments on participation sold	(65)	-	(132)	-
Net payment on share repurchase	-	-	(141,149)	-
Dividends paid	(414,880)	(545,265)	(1,291,199)	(1,642,918)
Net cash provided by (used in) financing activities	(13,048,179)	1,062,630	(24,266,292)	9,422,265
Net (decrease) increase in cash and cash equivalents	397,185	1,340,480	506,933	1,270,656
Cash and cash equivalents, beginning of period	725,537	924,374	615,789	994,198
Cash and cash equivalents, end of period	$1,122,722	$2,264,854	$1,122,722	$2,264,854
Supplemental disclosure of cash flow information:				
Interest received	$942,582	$1,203,598	$3,209,456	$3,514,893
Dividends received	$4,048	$6,621	$17,576	$22,425
Fees received	$29,987	$21,506	$63,070	$63,008
Interest paid (excluding interest paid on interest rate swaps)	$163,810	$173,889	$517,134	$423,752
Net interest paid on interest rate swaps	$206,407	$224,155	$648,638	$665,508
Taxes paid	$836	$17,374	$6,763	$46,541
Noncash investing activities:				
Receivable for investments sold	$934,964	$470,266	$934,964	$470,266
Payable for investments purchased	$2,546,467	$16,107,038	$2,546,467	$16,107,038
Net change in unrealized gains (losses) on available-for-sale securities, net of reclassification adjustment	$(165,544)	$656,287	$(4,508,032)	$1,060,619
Noncash financing activities:				
Dividends declared, not yet paid	$331,557	$487,237	$331,557	$487,237
Conversion of Series B cumulative preferred stock	-	-	-	$32,272

Contingent beneficial conversion feature on 4% Convertible Senior Notes	$4,320	$(26,603)	$12,833	$19,738
Equity component of 5% Convertible Senior Notes	-	$11,717	-	$11,717

See notes to consolidated financial statements.

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

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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

- Annaly, the parent company, which invests primarily in various types of Agency mortgage-backed securities and related derivatives to hedge these investments.
- Fixed Income Discount Advisory Company ("FIDAC"), a subsidiary which manages an affiliated investment vehicle for which it earns fee income.
- RCap Securities, Inc. ("RCap"), a subsidiary which operates as a broker-dealer, and is a member of the Financial Industry Regulatory Authority ("FINRA").
- Shannon Funding LLC ("Shannon"), a subsidiary which provides warehouse financing to residential mortgage originators in the United States.
- Annaly Middle Market Lending LLC (formerly known as Charlesfort Capital Management LLC), a subsidiary which engages in corporate middle market lending transactions.
- Annaly Commercial Real Estate Group, Inc. ("Annaly Commercial", formerly known as CreXus Investment Corp. ("CreXus")), a subsidiary that is a recently acquired business which specializes in acquiring, financing and managing commercial mortgage loans and other commercial real estate debt, commercial mortgage-backed securities and other commercial real estate-related assets.

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"). The Company is externally managed by Annaly Management Company LLC (the "Manager").

A summary of the Company's significant accounting policies follows:

Basis of Accounting – 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"). In the opinion of management, the consolidated financial statements reflect all adjustments considered necessary for a fair presentation of the Company's financial position, results of operations and cash flows.

Principles of Consolidation – The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. Beginning with the Company's consolidated financial statements for the quarter and six month periods ended June 30, 2013, the Company reclassified previously presented financial information so that amounts previously presented in the Consolidated Statements of Operations and Comprehensive Income (Loss) as interest income from Investments are presented as interest income from Reverse repurchase agreements and Other. Consolidated financial statements for periods prior to June 30, 2013 have been conformed 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 financial support from other parties. A variable interest is an investment or other interest that will absorb portions of a VIE's expected losses or receive portions of the entity's expected residual returns. A VIE is required to be consolidated by its primary beneficiary, which is defined as the party that (i) has the power to control the activities that most significantly impact the VIE's economic performance and (ii) has the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

Cash and Cash Equivalents – Cash and cash equivalents include cash on hand and cash held in money market funds on an overnight basis. RCap is a member of various clearing organizations with which it maintains cash required for the conduct of its day-to-day clearance activities. Cash and securities deposited with clearing organizations are carried at cost, which approximates fair value. The Company also maintains collateral in the form of cash on margin with counterparties to its interest rate swaps and other derivatives. Cash and securities deposited with clearing organizations and collateral held in the form of cash on margin with counterparties to its interest rate swaps and other derivatives totaled $740.2 million and $527.5 million at September 30, 2013 and December 31, 2012, respectively.

Fair Value Measurements – The Company carries 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 the notes to these consolidated financial statements.

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

Agency Mortgage-Backed Securities and Agency Debentures – The Company invests primarily in mortgage pass-through certificates, collateralized mortgage obligations and other mortgage-backed securities representing interests in or obligations backed by pools of mortgage loans, and certificates guaranteed by the Government National Mortgage Association ("Ginnie Mae"), the Federal Home Loan Mortgage Corporation ("Freddie Mac") or the Federal National Mortgage Association ("Fannie Mae") (collectively, "Agency mortgage-backed securities"). The Company also invests in Agency debentures issued by the Federal Home Loan Banks ("FHLB"), Freddie Mac and Fannie Mae.

Investment Securities – Agency mortgage-backed securities, Agency debentures and corporate debt are referred to herein as "Investment Securities." Although the Company generally intends to hold most of its Investment Securities until maturity, it may, from time to time, sell any of its Investment Securities as part of its overall management of its portfolio. Investment Securities classified as available-for-sale are reported at fair values estimated by management that are compared to independent sources for reasonableness, with unrealized gains and losses reported as a component of other comprehensive income (loss). Investment Securities transactions are recorded on trade date. Realized gains and losses on sales of Investment Securities are determined using the average cost method. The Company's investments in corporate debt are designated as held for investment, and are carried at their principal balance outstanding plus any premiums or discounts less allowances for loan losses. No allowance for loan losses was deemed necessary as of September 30, 2013 and December 31, 2012.

On April 1, 2011, the Company elected the fair value option for Agency interest-only mortgage-backed securities acquired on or after such date. Interest-only securities and inverse interest-only securities are collectively referred to as "interest-only securities." These Agency interest-only mortgage-backed securities represent the Company's right to receive a specified proportion of the contractual interest flows of specific Agency mortgage-backed securities. Agency interest-only mortgage-backed securities acquired on or after April 1, 2011 are measured at fair value as Net gains (losses) on trading assets in the Company's Consolidated Statements of Operations and Comprehensive Income (Loss). The interest-only securities are included in Agency mortgage-backed securities at fair value on the accompanying Consolidated Statements of Financial Condition.

Interest income from coupon payments is accrued based on the outstanding principal amounts of the Investment Securities and their contractual terms. Premiums and discounts associated with the purchase of the Investment Securities are amortized or accreted into interest income over the projected lives of the securities using the interest method. The Company's policy for estimating prepayment speeds for calculating the effective yield is to evaluate historical performance, consensus prepayment speeds and current market conditions. Adjustments are made for actual prepayment activity.

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Equity Securities – The Company invests 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 Operations and 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”), forward contracts for Agency mortgage-backed securities purchases or sales on a generic pool, or to-be-announced, basis (“TBA securities”) with the intent to net settle (“TBA derivatives”), options on TBA securities (“MBS options”) and U.S. Treasury 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. The Company may also enter into TBA dollar rolls. Derivatives are accounted for in accordance with 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 Operations and Comprehensive Income (Loss).

Some derivative agreements contain provisions that allow for netting or setting off by counterparty; however, beginning on September 30, 2013, the Company elected to present related assets and liabilities on a gross basis in the Consolidated Statements of Financial Condition. Prior to September 30, 2013, the Company presented in the Consolidated Statements of Financial Condition the fair value of interest rate swap contracts net, by counterparty, if the derivative agreements included netting provisions.

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 be over-the-counter (“OTC”) agreements which are negotiated directly with a counterparty, or centrally cleared through a registered commodities exchange. OTC 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 exchange market values.

Interest rate swaptions - Interest rate swaptions are purchased 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 for interest rate swaptions is reported as an asset in the Consolidated Statement of Financial Position. The premium is valued at an amount equal to the fair value of the swaption. The difference between the premium and the fair value of the swaption is reported in Net gain (loss) on trading assets in the Consolidated Statements of Operations and Comprehensive Income (Loss). If a swaption expires unexercised, the realized loss on the swaption would be equal to the premium 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 - A TBA security is a forward contract for the purchase ("long position") or sale ("short position") of Agency mortgage-backed securities at a predetermined price, face amount, issuer, coupon and stated maturity on an agreed-upon future date. The specific Agency mortgage-backed securities delivered into the contract upon the settlement date, published each month by the Securities Industry and Financial Markets Association, are not known at the time of the transaction. 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 Operations and 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 Operations and Comprehensive Income (Loss).

U.S. Treasury Futures - U.S. Treasury futures contracts are derivatives that track the prices of specific U.S. Treasury securities. Short sales of U.S. Treasury futures contracts help mitigate the potential impact of changes in interest rates on the portfolio performance. The Company maintains a margin account which is 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 Operations and 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 Operations and 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 for the quarters and nine months ended September 30, 2013 and 2012.

Loan Loss Reserves –To determine if loan loss allowances are required on investments in corporate debt, the Company reviews the monthly and/or quarterly financial statements of the borrowers to verify they meet the covenants of the loan documents. If based on the financial review it is deemed probable that the Company will be unable to collect contractual principal and interest amounts (e.g. financial performance and delinquencies), a loan loss provision would be recorded. No allowance for loan losses was deemed necessary as of September 30, 2013 and December 31, 2012.

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

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

Goodwill and Intangible Assets – The Company's acquisitions of FIDAC, Merganser Capital Management, Inc. ("Merganser") and CreXus were accounted for using the acquisition method. 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 costs of FIDAC, Merganser and CreXus were allocated to the assets acquired, including identifiable intangible assets, and the liabilities assumed based on their estimated fair values at the date of acquisition. The excess of purchase price over the fair value of the net assets acquired was recognized as goodwill.

The Company tests goodwill for impairment on an annual basis and at interim periods when events or circumstances may make it more likely than not that an impairment has occurred. If a qualitative analysis indicates that there may be an impairment, a quantitative analysis is performed. The quantitative impairment test for goodwill utilizes a two-step approach, whereby the Company compares the carrying value of each identified reporting unit to its fair value. If the carrying value of the reporting unit is greater than its fair value, the second step is performed, where the implied fair value of goodwill is compared to its carrying value. The Company recognizes an impairment charge for the amount by which the carrying amount of goodwill exceeds its fair value.

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

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

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 subjected to federal income tax to the extent of its distributions to shareholders 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, Merganser, RCap and certain subsidiaries of Annaly Commercial, have made separate joint elections to treat these subsidiaries as taxable REIT subsidiaries. As such, each of these taxable REIT subsidiaries 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 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, 2013 or December 31, 2012.

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

Commercial Real Estate Investments

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

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 an unamortized origination fee, premium or discount, less a reserve for estimated losses if necessary. Origination fees, premiums and discounts are amortized or accreted into interest income over the estimated life of the investment.

Investments in Commercial Real Estate – Investments in commercial real estate are carried at historical cost less accumulated depreciation. Costs directly related to acquisitions deemed to be business combinations are expensed. Ordinary repairs and maintenance which are not reimbursed by the 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.

Allowance for Losses – The Company evaluates the need for a loss reserve on its commercial real estate mortgages, loans and preferred equity interests held for investment (collectively referred to as "CRE Debt and Preferred Equity Investments"). A provision is established when the Company believes CRE Debt and Preferred Equity Investments are impaired, which is when it is deemed probable that the Company will be unable to collect contractual principal and interest amounts. 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.

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 the 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 based on the estimated recovery value.

Broker Dealer Activities

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

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

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

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

A Summary of Recent Accounting Pronouncements Follows:

Presentation

Balance Sheet (ASC 210)

On December 23, 2011, FASB released ASU 2011-11 Balance Sheet: Disclosures about Offsetting Assets and Liabilities. Under this update, the Company is required to disclose both gross information 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. This disclosure is intended to enable financial statement users to understand the effect of such arrangements on the Company's financial position. In January 2013, FASB released ASU 2013-01 Balance Sheet: Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities, which served solely to clarify the scope of financial instruments included in ASU 2011-11 as there was concern about diversity in practice. The objective of these updates is to support further convergence of GAAP and IFRS requirements. The updates are effective for annual reporting periods beginning on or after January 1, 2013 and did not have a significant impact on the consolidated financial statements.

Comprehensive Income (ASC 220)

On December 23, 2011, the FASB issued ASU 2011-12, Comprehensive Income: Deferral of Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income In ASU No. 2011-05, which defers those changes in ASU 2011-05 that relate to the presentation of reclassification adjustments out of accumulated other comprehensive income. This was done to allow the FASB time to re-deliberate the presentation on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income. No other requirements under ASU 2011-05 are affected by ASU 2011-12. FASB tentatively decided not to require presentation of reclassification adjustments out of accumulated other comprehensive income on the face of the financial statements and to propose new disclosures instead.

In February 2013, the FASB issued ASU 2013-02 Comprehensive Income: Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This update addresses the disclosure issue left open at the deferral under ASU 2011-12. This update requires the provision of information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, it requires presentation, either on the face of the statement where net income is presented or in the notes, 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. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, a cross-reference must be provided to other disclosures required under GAAP that provide additional detail about those amounts. This update is effective for reporting periods beginning after December 15, 2012. Adoption of ASU 2013-02 did not have a significant impact on the consolidated financial statements.

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Broad Transactions

Financial Services – Investment Companies (ASC 946)

In June 2013, the FASB finalized ASU 2013-08 amending the scope, measurement and disclosure requirements under Topic 946 – Financial Services-Investment Companies. The FASB decided not to address issues related to the applicability of investment company accounting for real estate entities and the measurement of real estate investments at this time. Further, as stated in ASC 946-10-15-3, the guidance in Topic 946 does not apply to REITs, and thus has no effect on the Company's consolidated financial statements.

2. AGENCY MORTGAGE-BACKED SECURITIES

The following tables present the Company's available-for-sale Agency mortgage-backed securities portfolio as of September 30, 2013 and December 31, 2012 which were carried at their fair value:

September 30, 2013	Freddie Mac	Fannie Mae	Ginnie Mae	Total Mortgage-Backed Securities
		(dollars in thousands)		
Agency mortgage-backed securities, par value	$ 26,837,473	$ 49,364,721	$ 184,594	$ 76,386,788
Unamortized discount	(8,245)	(11,415)	(379)	(20,039)
Unamortized premium	1,635,431	3,077,589	31,064	4,744,084
Amortized cost	28,464,659	52,430,895	215,279	81,110,833
Gross unrealized gains	285,508	638,337	11,075	934,920
Gross unrealized losses	(862,484)	(1,277,246)	(3,189)	(2,142,919)
Estimated fair value	$ 27,887,683	$ 51,791,986	$ 223,165	$ 79,902,834

	Fixed Rate	Adjustable Rate	Total
		(dollars in thousands)	
Amortized cost	$ 76,844,755	$ 4,266,078	$ 81,110,833
Gross unrealized gains	780,365	154,555	934,920
Gross unrealized losses	(2,122,255)	(20,664)	(2,142,919)
Estimated fair value	$ 75,502,865	$ 4,399,969	$ 79,902,834

December 31, 2012	Freddie Mac	Fannie Mae	Ginnie Mae	Total Mortgage-Backed Securities
		(dollars in thousands)		
Agency mortgage-backed securities, par value	$ 44,296,234	$ 70,649,782	$ 273,988	$ 115,220,004
Unamortized discount	(9,515)	(12,315)	(389)	(22,219)

Unamortized premium	2,121,478	3,695,381	39,348	5,856,207
Amortized cost	46,408,197	74,332,848	312,947	121,053,992
Gross unrealized gains	1,166,299	1,913,334	17,583	3,097,216
Gross unrealized losses	(36,890)	(146,533)	(4,578)	(188,001)
Estimated fair value	$ 47,537,606	$ 76,099,649	$ 325,952	$ 123,963,207

	Fixed Rate	Adjustable Rate (dollars in thousands)	Total
Amortized cost	$ 115,267,274	$ 5,786,718	$ 121,053,992
Gross unrealized gains	2,838,203	259,013	3,097,216
Gross unrealized losses	(183,388)	(4,613)	(188,001)
Estimated fair value	$ 117,922,089	$ 6,041,118	$ 123,963,207

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, 2013 and December 31, 2012, according to their estimated weighted average life classifications:

	September 30, 2013		December 31, 2012	
Weighted Average Life	Fair Value	Amortized Cost	Fair Value	Amortized Cost
		(dollars in thousands)		
Less than one year	$ 295,075	$ 291,250	$ 1,264,094	$ 1,250,405
Greater than one year through five years	66,618,558	67,357,639	119,288,168	116,510,310
Greater than five years through ten years	12,510,264	12,929,637	3,104,073	2,992,054
Greater than 10 years	478,937	532,307	306,872	301,223
Total	$ 79,902,834	$ 81,110,833	$ 123,963,207	$ 121,053,992

The weighted average lives of the Agency mortgage-backed securities at September 30, 2013 and December 31, 2012 in the table above are based upon principal prepayment rates for each security provided through subscription-based financial information services. The prepayment model considers current yield, forward yield, steepness of the yield curve, current mortgage rates, mortgage rate of the outstanding loans, loan age, margin, volatility and other factors. The actual weighted average lives of the Agency mortgage-backed securities could be longer or shorter than estimated.

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, 2013 and December 31, 2012.

	Unrealized Loss Position For:								
	Less than 12 Months			12 Months or More			Total		
	Estimated Fair Value	Unrealized Losses	Number of Securities	Estimated Fair Value	Unrealized Losses	Number of Securities	Estimated Fair Value	Unrealized Losses	Number of Securities
				(dollars in thousands)					
September 30, 2013	$ 52,628,291	$ (2,124,602)	557	$ 276,471	$ (18,317)	31	$ 52,904,762	$ (2,142,919)	588
December 31, 2012	$ 11,220,514	$ (82,721)	187	$ 147,775	$ (105,280)	39	$ 11,368,289	$ (188,001)	226

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

During the quarter and nine months ended September 30, 2013, the Company sold $12.8 billion and $42.6 billion of Agency mortgage-backed securities, respectively, resulting in a net realized gain of $43.6 million and $374.4 million, respectively. During the quarter and nine months ended September 30, 2012, the Company sold $7.0 billion and $17.9 billion of Agency mortgage-backed securities, respectively, resulting in a net realized gain of $142.0 million and $317.1 million, respectively. Average cost is used as the basis on which the realized gain or loss on sale is determined.

Agency interest-only mortgage-backed securities represent the right to receive a specified portion of the contractual interest flows of the underlying outstanding principal balance of specific Agency mortgage-backed securities. Agency interest-only mortgage-backed securities in the Company's portfolio as of September 30, 2013 had net unrealized gains of $18.0 million and an amortized cost of $980.8 million.

3. ACQUISITION OF CREXUS

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

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

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

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

The Company recorded $71.4 million of goodwill during the second quarter of 2013 associated with the acquisition of CreXus in the Consolidated Statements of Financial Condition. The final goodwill recorded on the Consolidated Statements of Financial Condition may differ from that reflected herein as a result of future measurement period adjustments. In management's opinion, the goodwill represents the synergies that will result from integrating CreXus' commercial real estate platform into the Company, which the Company believes is complementary to its existing business and return profile.

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

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

4. COMMERCIAL REAL ESTATE INVESTMENTS

At September 30, 2013, commercial real estate investments were composed of the following:

CRE Debt and Preferred Equity Investments

	September 30, 2013		
	Outstanding Principal	Carrying Value	Percentage of Loan Portfolio(1)
	(dollars in thousands)		
Senior mortgages	$ 431,000	$ 431,472	35.1 %
Subordinate notes	41,149	41,571	3.3 %
Mezzanine loans	567,379	569,045	46.2 %
Preferred equity	189,769	189,115	15.4 %
Subtotal	$ 1,229,297	$ 1,231,203	100.0 %
Net origination fees	n/a	(4,021)	n/a
Net investment in commercial mortgage loans and preferred equity	n/a	$ 1,227,182	n/a

(1) Based on outstanding principal.

	September 30, 2013				
	Senior Mortgages	Subordinate Notes	Mezzanine Loans	Preferred Equity	Total
	(dollars in thousands)				
Beginning principal balance	$330,864	$41,235	$524,393	$39,769	$936,261
Purchases/advances, principal balance	137,764	-	48,606	150,000	336,347
Sales, principal balance	(13,750)	-	-	-	(13,750)

Remaining premium (discount)	495	422	1,666	(654)	1,929
Principal payments	(23,901)	(86)	(5,620)	-	(29,584)
Carrying value	$431,472	$41,571	$569,045	$189,115	$1,231,203

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Internal CRE Debt and Preferred Equity Investment Ratings

	September 30, 2013			Internal Ratings		
Investment Type	Outstanding Principal	Percentage of Portfolio		Performing Loans	Watch List Loans	Workout Loans
				(dollars in thousands)		
Senior mortgages	$ 431,000	35.1	%	$ 418,027	$ 12,973 (1)	$ -
Subordinate notes	41,149	3.3	%	41,149	-	-
Mezzanine loans	567,379	46.2	%	567,379	-	-
Preferred equity	189,769	15.4	%	189,769	-	-
	$ 1,229,297	100.0	%	$ 1,216,324	$ 12,973	$ -

(1) Loan on non-accrual status. Amount represents recorded investment.

Total Real Estate Investment

	September 30, 2013 (dollars in thousands)
Real estate held for investment, at amortized cost	
Land	$ 6,639
Buildings and improvements	31,099
Subtotal	37,738
Less: accumulated depreciation	(583)
Real estate held for investment, net	37,155
Real estate held for sale, at fair value	23,269
Total real estate investments, net	60,424
Net carrying value of CRE Debt and Preferred Equity Investment	1,227,182
Total real estate investments	$ 1,287,606

5. GOODWILL

At September 30, 2013 and December 31, 2012, goodwill totaled $103.2 million and $55.4 million, respectively. During the second quarter of 2013, the Company recorded $71.4 million of additional goodwill associated with the acquisition of CreXus. During the first quarter of 2012, Merganser's prior owners received an additional payment of $13.4 million relating to earn-out provisions in the merger agreement, which was recorded as additional goodwill. The Company also recorded a goodwill impairment charge of $24.0 million during the second quarter of 2013 on the Merganser investment based on market information that became available to the Company. In October 2013, the Company sold the net assets and operations of Merganser, which included an assignment of the offices leased by Merganser. No goodwill impairment losses were recognized prior to the second quarter of 2013.

6. FAIR VALUE MEASUREMENTS

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

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

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

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

Agency mortgage-backed securities, Agency debentures, interest rate swaps, swaptions and other derivatives are valued using quoted prices, including dealer quotes, or internally estimated prices for similar assets. 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, periodic and life caps, rate reset period and expected life of the security in its estimates of fair value. Management reviews the fair values generated by the model to determine whether prices are reflective of the current market. Management indirectly corroborates its estimates of the fair value using pricing models by comparing its results to independent prices provided by dealers in the securities and/or third party pricing services. Certain liquid asset classes, such as Agency fixed-rate pass-throughs, may be priced using independent sources such as quoted prices for TBA securities.

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

The fair value of U.S. Treasury securities and investments in affiliates are based on quoted prices in active markets.

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

At September 30, 2013	Level 1	Level 2	Level 3
		(dollars in thousands)	
Assets:			
U.S. Treasury securities	$2,459,617	$-	$-
Agency mortgage-backed securities	-	79,902,834	-
Agency debentures	-	3,128,853	-
Investment in affiliate	136,748	-	-
Interest rate swaps	-	360,373	-
Other derivative contracts	998	84,182	-
Liabilities:			
U.S. Treasury securities sold, not yet purchased	2,403,524	-	-
Interest rate swaps	-	1,504,258	-
Other derivative contracts	25,635	99,833	-

At December 31, 2012	Level 1	Level 2	Level 3
		(dollars in thousands)	
Assets:			
U.S. Treasury securities	$752,076	$-	$-
Agency mortgage-backed securities	-	123,963,207	-
Agency debentures	-	3,009,568	-
Investments in affiliates	234,120	-	-
Other derivative contracts	7,955	1,875	-
Liabilities:			
U.S. Treasury securities sold, not yet purchased	495,437	-	-
Interest rate swaps	-	2,584,907	-

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

The following table summarizes the estimated fair value for all financial assets and liabilities as of September 30, 2013 and December 31, 2012.

	Level in Fair Value Hierarchy	September 30, 2013 Carrying Value	Fair Value	December 31, 2012 Carrying Value	Fair Value
		(dollars in thousands)			
Financial assets:					
Cash and cash equivalents(1)	1	$1,122,722	$1,122,722	$615,789	$615,789
Reverse repurchase agreements(1)	1	31,074	31,074	1,811,095	1,811,095
Securities borrowed(1)	1	3,439,954	3,439,954	2,160,942	2,160,942
U.S. Treasury securities(2)	1	2,459,617	2,459,617	752,076	752,076
Agency mortgage-backed securities	2	79,902,834	79,902,834	123,963,207	123,963,207
Agency debentures	2	3,128,853	3,128,853	3,009,568	3,009,568
Investments in affiliates(2)	1	136,748	136,748	234,120	234,120
Commercial real estate debt and preferred equity(3)	3	1,227,182	1,225,912	-	-
Corporate debt(4)	2	75,988	76,049	63,944	64,271
Interest rate swaps	2	360,373	360,373	-	-
Other derivatives(8)	1,2	85,180	85,180	9,830	9,830
Financial liabilities:					
U.S. Treasury securities sold, not yet purchased(2)	1	$2,403,524	$2,403,524	$495,437	$495,437
Repurchase agreements(1)(5)	1,2	69,211,309	69,586,809	102,785,697	103,332,832
Securities loaned(1)	1	3,299,090	3,299,090	1,808,315	1,808,315
Convertible Senior Notes(2)	1	824,512	883,698	825,541	899,192
Mortgages payable(6)	2	19,346	19,282	-	-
Participation sold(7)	3	14,164	14,095	-	-
Interest rate swaps	2	1,504,258	1,504,258	2,584,907	2,584,907
Other derivatives(8)	1,2	125,468	125,468	-	-

(1) Carrying value approximates fair value due to the short-term maturities of these items.

(2) Fair value is determined using end of day quoted prices in active markets.

(3) Commercial real estate debt and preferred equity includes commercial mortgage loans and preferred equity held for investment. Commercial real estate debt and preferred equity are held for investment and are carried at their outstanding principal balance, net of an unamortized origination fee, premium or discount, less a reserve for estimated losses. The estimated fair value of the commercial real estate debt and preferred equity takes into consideration expected changes in interest rates and changes in the underlying collateral cash flows. The fair value of commercial real estate debt and preferred equity is based on the investment's contractual cash flows and estimated changes in the yield curve. The fair value also reflects consideration of changes in credit risk since the loan was originated or purchased.

(4) The carrying value of corporate debt is based on amortized cost less an allowance for loan losses, if necessary. 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.

(5) The fair value of repurchase agreements with maturities greater than one year are valued as pay fixed versus receive floating interest rate swaps.

(6) 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.

(7) The carrying value of participation sold is based on the loan's amortized cost less an allowance for loan losses, if necessary. The fair value of participation sold is based on the fair value of the underlying related commercial loan.

(8) Other derivatives include swaptions, TBA derivatives, MBS options and futures contracts. A complete discussion of the methodology utilized by the Company to estimate the fair value of these derivative instruments is included in the summary of the Company's significant accounting policies in the notes to these consolidated financial statements.

7. REPURCHASE AGREEMENTS

The Company had outstanding $69.2 billion and $102.8 billion of repurchase agreements with weighted average borrowing rates of 2.02% and 1.53%, after giving effect to the Company's interest rate swaps, and weighted average remaining maturities of 200 days and 191 days as of September 30, 2013 and December 31, 2012, respectively. Investment Securities and U.S. Treasury securities pledged as collateral under these repurchase agreements and interest rate swaps had an estimated fair value and accrued interest of $75.9 billion and $252.0 million at September 30, 2013, respectively, and $109.2 billion and $363.8 million at December 31, 2012, respectively.

At September 30, 2013 and December 31, 2012, the repurchase agreements had the following remaining maturities and weighted average rates:

	September 30, 2013			December 31, 2012		
	Repurchase Agreements	Weighted Average Rate		Repurchase Agreements	Weighted Average Rate	
	(dollars in thousands)					
1 day	$6,827,874	0.21	%	$-	-	
2 to 29 days	17,171,077	0.41	%	33,191,448	0.50	%
30 to 59 days	13,302,830	0.42	%	28,383,851	0.45	%
60 to 89 days	5,722,493	0.43	%	8,602,680	0.42	%
90 to 119 days	8,030,625	0.27	%	4,804,671	0.57	%
Over 120 days	18,156,410	1.36	%	27,803,047	1.03	%
Total	$69,211,309	0.63	%	$102,785,697	0.63	%

Repurchase agreements and reverse repurchase agreements with the same counterparty and the same maturity are presented net in the Consolidated Statements of Financial Condition when the terms of the agreements permit netting. The following table summarizes the gross amounts of reverse repurchase agreements and repurchase agreements, amounts offset in accordance with netting arrangements and net amounts of repurchase agreements and reverse repurchase agreements as presented in the Consolidated Statements of Financial Condition as of September 30, 2013 and December 31, 2012.

	September 30, 2013		December 31, 2012	
	Reverse Repurchase Agreements	Repurchase Agreements	Reverse Repurchase Agreements	Repurchase Agreements
	(dollars in thousands)			
Gross Amounts	$5,526,615	$74,706,850	$3,650,053	$104,624,655
Amounts Offset	(5,495,541)	(5,495,541)	(1,838,958)	(1,838,958)
Netted Amounts	$31,074	$69,211,309	$1,811,095	$102,785,697

8. DERIVATIVE INSTRUMENTS

In connection with the Company's interest rate risk management strategy, the Company economically hedges a portion of its interest rate risk by entering into derivative financial instrument contracts. As of September 30, 2013, such instruments included interest rate swaps, swaptions, TBA derivatives, MBS options and U.S. Treasury futures contracts. The purpose of using derivatives is to manage overall portfolio risk with the potential to generate additional income for distribution to shareholders. These derivatives are subject to changes in market value 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 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. None of the Company’s derivative transactions have been designated as hedging instruments for accounting purposes.

The table below summarizes fair value information about our derivative assets and liabilities as of September 30, 2013 and December 31, 2012:

Derivatives Instruments	Balance Sheet Location		September 30, 2013		December 31, 2012
			(dollars in thousands)		
Assets					
Interest rate swaps	Interest rate swaps, at fair value	$	360,373	$	-
Interest rate swaptions	Other derivative contracts, at fair value		62,332		-
TBA derivatives	Other derivative contracts, at fair value		21,850		1,875
U.S. Treasury futures	Other derivative contracts, at fair value		998		7,955
		$	445,553	$	9,830
Liabilities					
Interest rate swaps	Interest rate swaps, at fair value	$	1,504,258	$	2,584,907
TBA derivatives	Other derivative contracts, at fair value		66,123		-
MBS options	Other derivative contracts, at fair value		33,710		-
U.S. Treasury futures	Other derivative contracts, at fair value		25,635		-
		$	1,629,726	$	2,584,907

The following table summarizes certain characteristics of the Company’s interest rate swaps at September 30, 2013:

Maturity		Current Notional	Weighted Average Pay Rate		Weighted Average Receive Rate		Weighted Average Years to Maturity
		(dollars in thousands)					
0 - 3 years	$	24,208,000	1.83	%	0.20	%	2.19
3 - 6 years		11,427,340	1.84	%	0.21	%	4.30
6 - 10 years		13,327,250	2.31	%	0.25	%	7.54
Greater than 10 years		3,190,000	3.66	%	0.20	%	21.03
Total/Weighted Average	$	52,152,590	2.06	%	0.21	%	5.17

The following table summarizes certain characteristics of the Company’s interest rate swaptions at September 30, 2013:

	Current Underlying Notional	Weighted Average Underlying Pay Rate		Weighted Average Underlying Receive Rate	Weighted Average Underlying Years to Maturity	Weighted Average Months to Expiration
		(dollars in thousands)				
$	6,800,000	3.02	%	3M LIBOR	9.02	3.42

The following table summarizes certain characteristics of the Company's TBA derivatives as of September 30, 2013:

	September 30, 2013 (dollars in thousands)			
Purchase and sale contracts for derivative TBAs	Notional	Cost Basis	Market Value	Net Carrying Value
Purchase contracts	$ 1,625,000	$ 1,682,329	$ 1,704,180	$ 21,850
Sale contracts	(3,000,000)	(2,911,416)	(2,977,539)	(66,123)
Net derivative TBA derivatives	$ (1,375,000)	$ (1,229,087)	$ (1,273,359)	$ (44,273)

Derivative contracts may contain legally enforceable provisions that allow for netting or setting off receivables and payables with each counterparty. Beginning on September 30, 2013, the Company elected to present derivative contracts on a gross basis on the Consolidated Statements of Financial Condition. Prior to September 30, 2013, the Company presented the fair value of interest rate swap contracts net, by counterparty. The following table summarizes notional amounts and unrealized gains (losses) on or related to interest rate swap contracts on a gross basis, with amounts eligible for offset in accordance with netting arrangements, and gross and net amounts as presented in the Consolidated Statements of Financial Condition as of September 30, 2013 and December 31, 2012, respectively.

	September 30, 2013			
	Interest Rate Swaps - Asset		Interest Rate Swaps - Liability	
	Notional	Unrealized Gains	Notional	Unrealized Losses
	(dollars in thousands)			
Gross Amounts	$ 10,410,000	$ 360,373	$ 41,742,590	$ (1,504,258)
Amounts Offset	(8,310,000)	(328,327)	8,310,000	328,327
Netted Amounts	$ 2,100,000	$ 32,046	$ 50,052,590	$ (1,175,931)

	December 31, 2012			
	Interest Rate Swaps - Asset		Interest Rate Swaps - Liability	
	Notional	Unrealized Gains	Notional	Unrealized Losses
	(dollars in thousands)			
Gross Amounts	$ 1,100,000	$ 26,020	$ 45,811,800	$ (2,610,927)
Amounts Offset	(1,100,000)	(26,020)	1,100,000	26,020
Netted Amounts	$ -	$ -	$ 46,911,800	$ (2,584,907)

The effect of interest rate swaps on the Consolidated Statements of Operations and Comprehensive Income (Loss) is as follows:

Location on Consolidated Statements of Operations and Comprehensive Income (Loss)

	Realized Gains (Losses) on Interest Rate Swaps	Realized Gains (Losses) on Termination of Interest Rate Swaps (dollars in thousands)	Unrealized Gains (Losses) on Interest Rate Swaps
For the Quarters Ended:			
September 30, 2013	$ (227,909)	$ (36,658)	$ 6,343
September 30, 2012	$ (224,272)	$ -	$ (104,197)
For the Nine Months Ended:			
September 30, 2013	$ (666,112)	$ (88,685)	$ 1,441,099
September 30, 2012	$ (665,614)	$ (2,385)	$ (373,773)

The weighted average pay rate on the Company's interest rate swaps at September 30, 2013 was 2.06% and the weighted average receive rate was 0.21%. The weighted average pay rate at December 31, 2012 was 2.21% and the weighted average receive rate was 0.24%.

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