ANNALY CAPITAL MANAGEMENT INC
Form S-4/A
May 31, 2018
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As filed with the Securities and Exchange Commission on May 31, 2018

Registration No. 333-224968

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1

to

FORM S-4

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

Annaly Capital Management, Inc.

(Exact name of registrant as specified in its charter)

Maryland	2834	22-3479661
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

1211 Avenue of the Americas

New York, New York 10036

(212) 696-0100

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

Anthony Green, Esq.

Chief Legal Officer

Annaly Capital Management, Inc.

1211 Avenue of the Americas

New York, New York 10036

(212) 696-0100

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copies to:

Adam O. Emmerich, Esq.	**Sean P. Reid**	**Thomas R. Salley, Esq.**
	MTGE Investment Corp.	
Ronald C. Chen, Esq.	**2 Bethesda Metro Center**	**J. Kevin Mills, Esq.**
Wachtell, Lipton, Rosen & Katz		**Cooley LLP (US)**
51 West 52nd Street	**12th Floor**	
New York, New York 10019	**Bethesda, Maryland 20814**	**1299 Pennsylvania Avenue, NW.**
(212) 403-2000	**(301) 968-9220**	**Washington, D.C. 20004**
		(202) 842-7899

Approximate date of commencement of proposed sale of the securities to the public: May 16, 2018, the date on which the preliminary prospectus and tender offer materials were filed and sent to securityholders. The offer cannot, however, be completed prior to the time this Registration Statement becomes effective. Accordingly, any actual sale or purchase of securities pursuant to the offer will occur only after this Registration Statement is effective, subject to the conditions to the transactions described herein.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box:

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company and emerging growth company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
		Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

If applicable, place an in the box to designate the appropriate rule provision relied upon in conducting this transaction:

Exchange Act Rule 13e-4(i) (Cross-Border Issuer Tender Offer)

Exchange Act Rule 14d-1(d) (Cross-Border Third-Party Tender Offer)

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this document may change. The registrant may not complete the offer and issue these securities until the registration statement filed with the U.S. Securities and Exchange Commission is effective. This document is not an offer to sell these securities, and the registrant is not soliciting an offer to buy these securities in any state or jurisdiction in which such offer is not permitted.

PRELIMINARY AND SUBJECT TO CHANGE, DATED MAY 31, 2018

Offer by

MOUNTAIN MERGER SUB CORPORATION,

a direct wholly owned subsidiary of

ANNALY CAPITAL MANAGEMENT, INC.

to Exchange Each Outstanding Share of Common Stock of

MTGE INVESTMENT CORP.

for

$9.82 in Cash and

0.9519 Shares of Common Stock of Annaly Capital Management, Inc.

or

$19.65 in Cash

or

1.9037 Shares of Common Stock of Annaly Capital Management, Inc.

(subject in each case to the election procedures and, in the case of an all-cash

election or an all-stock election, to the proration procedures described

in this document and related letter of election and transmittal)

THE OFFER AND THE WITHDRAWAL RIGHTS WILL EXPIRE AT 5:00 P.M., EASTERN TIME, ON JUNE 18, 2018, UNLESS EXTENDED.

Annaly Capital Management, Inc., a Maryland corporation (Annaly), through its direct wholly owned subsidiary Mountain Merger Sub Corporation, a Maryland corporation (the Offeror), is offering (the offer), upon the terms and subject to the conditions set forth in this prospectus/offer to exchange and in the accompanying letter of election and transmittal, to exchange for each outstanding share of common stock, par value $0.01 per share (the MTGE common stock), of MTGE Investment Corp., a Maryland corporation (MTGE), validly tendered and not validly withdrawn in the offer:

- $9.82 in cash; and
- 0.9519 shares of Annaly common stock, par value $0.01 per share (the Annaly common stock), together with cash in lieu of any fractional shares of Annaly common stock.

We refer to the above as the mixed consideration.

In lieu of receiving the mixed consideration, holders of shares of MTGE common stock may elect to receive, for each share of MTGE common stock that they hold, (1) $19.65 in cash (we refer to this election as the all-cash election and this amount as the all-cash consideration) or (2) 1.9037 shares of Annaly common stock, together with cash in lieu of any fractional shares of Annaly common stock (we refer to this election as the all-stock election and this amount as the all-stock consideration). The mixed consideration, the all-cash consideration and the all-stock consideration (as applicable) will be paid without interest and less any applicable withholding taxes.

MTGE common stockholders who validly tender and do not validly withdraw their shares of MTGE common stock in the offer but who do not make a valid election will receive the mixed consideration for their shares of MTGE common stock. MTGE common stockholders who make the all-cash election or the all-stock election will be subject to proration so that approximately 50.0% of the aggregate consideration in the offer will

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be paid in shares of Annaly common stock and approximately 50.0% of the aggregate consideration in the offer will be paid in cash. See The Offer Elections and Proration for a description of the proration procedure.

The purpose of the offer is for Annaly to acquire control of, and ultimately the entire common equity interest in, MTGE. The offer is the first step in Annaly s plan to acquire all of the issued and outstanding shares of MTGE common stock. If the offer is completed, promptly following the consummation of the offer, Annaly intends to consummate a merger of MTGE with and into the Offeror, with the Offeror surviving the merger (which we refer to as the merger). The purpose of the merger is for Annaly to acquire all of the issued and outstanding shares of MTGE common stock that it did not acquire in the offer. In the merger, each issued and outstanding share of MTGE common stock that was not acquired by Annaly or the Offeror will be converted into the mixed consideration or, at the election of the holder of such shares, the all-cash consideration or all-stock consideration, subject to proration so that approximately 50.0% of the aggregate consideration in the merger will be paid in shares of Annaly common stock and approximately 50.0% of the aggregate consideration in the merger will be paid in cash. In addition, in the merger, each issued and outstanding share of MTGE s 8.125% Series A Cumulative Redeemable Preferred Stock, $0.01 par value per share (the MTGE Series A preferred stock) will be automatically converted into the right of the holders thereof to receive one newly issued share of Annaly s 8.125% Series H Cumulative Redeemable Preferred Stock, $0.01 par value per share, which will have rights, preferences, privileges and voting powers substantially the same as those of the MTGE Series A preferred stock. After the merger, the MTGE business will be held in a wholly owned subsidiary of Annaly, and the former MTGE stockholders will no longer have any direct ownership interest in the surviving corporation.

NOTICE OF OFFER AND MERGER UNDER SECTION 3-106.1 OF THE MARYLAND GENERAL CORPORATION LAW

In accordance with Section 3-106.1(e) of the Maryland General Corporation Law (the MGCL), notice of the offer and the merger and the transactions contemplated thereby is hereby given by Annaly and the Offeror. The Articles of Merger, pursuant to which the Merger will become effective, will be filed with the State Department of Assessments and Taxation of Maryland not earlier than 30 days after the date of this preliminary prospectus/offer to exchange.

The Offeror s obligation to accept for exchange, and to exchange, shares of MTGE common stock for cash and shares of Annaly common stock in the offer is subject to a number of conditions, including that at least a majority of the outstanding shares of MTGE common stock have been validly tendered (and not validly withdrawn) in the offer. See The Offer Conditions of the Offer for a description of all of such conditions.

Annaly common stock is listed on the New York Stock Exchange (NYSE) under the symbol NLY, and MTGE common stock is listed on the Nasdaq Stock Market (Nasdaq) under the symbol MTGE.

The merger will not entitle MTGE stockholders to dissenters rights or rights of objecting stockholders under the MGCL and MTGE s charter.

For a discussion of certain factors that MTGE common stockholders should consider in connection with the offer, please read the section of this document entitled Risk Factors beginning on page 23.

You are encouraged to read this entire document and the related letter of election and transmittal carefully, including the annexes and information referred to or incorporated by reference in this document.

Neither Annaly nor the Offeror has authorized any person to provide any information or to make any representation in connection with the offer other than the information contained or incorporated by reference in this document, and if any person provides any information or makes any representation of this kind, that information or representation must not be relied upon as having been authorized by Annaly or the Offeror.

Neither the U.S. Securities and Exchange Commission (the SEC) nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this document. Any representation to the contrary is a criminal offense.

The date of this preliminary prospectus/offer to exchange is May 31, 2018.

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This document incorporates by reference important business and financial information about Annaly, MTGE and their respective subsidiaries from documents filed with the SEC that have not been included in or delivered with this document. This information is available without charge at the SEC s website at www.sec.gov, as well as from other sources. See Where To Obtain More Information.

You can obtain the documents incorporated by reference in this document by requesting them in writing or by telephone at the following address and telephone number:

Annaly Capital Management, Inc.

1211 Avenue of the Americas

New York, New York 10036

Attention: Investor Relations

1-888-8ANNALY

http://www.annaly.com/investors

In addition, if you have questions about the offer or the merger, or if you need to obtain copies of this document, the letter of election and transmittal or other documents incorporated by reference in this document, you may contact the information agent for this offer listed below. You will not be charged for any of the documents you request.

D.F. King & Co., Inc.

48 Wall Street, 22nd Floor

New York, New York 10005

Bankers & Brokers Call: (212) 269-5550

All Others Call Toll-Free: (800) 669-5550

If you would like to request documents, please do so by June 11, 2018, in order to receive them before the expiration of the offer.

Information included in this document relating to MTGE, including but not limited to the descriptions of MTGE and its business and the information under the headings Selected Historical Consolidated Financial Data of MTGE, The Offer Background of the Offer and the Merger, The Offer MTGE s Reasons for the Offer and the Merger; Recommendation of the MTGE Board of Directors, The Offer Opinion of the MTGE Special Committee s Financial Advisor, The Offer MTGE Unaudited Prospective Financial Information and The Offer Interests of Certain Persons in the Offer and the Merger appears in the Solicitation/Recommendation Statement on Schedule 14D-9 dated May 16, 2018 and filed by MTGE with the SEC (the Schedule 14D-9). The Schedule 14D-9 was mailed to holders of shares of MTGE common stock on or about May 16, 2018.

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QUESTIONS AND ANSWERS ABOUT THE OFFER AND THE MERGER

Below are some of the questions that you as a MTGE stockholder may have regarding the offer and the merger and answers to those questions. You are encouraged to carefully read the remainder of this document and the related letter of election and transmittal, including the annexes and information referred to or incorporated by reference in this document, because the information contained in this section and in the section entitled Summary is not complete. Additional important information is contained in the remainder of this document and the related letter of election and transmittal. See Where To Obtain More Information. As used in this document, unless otherwise indicated or the context requires, Annaly, we or us refers to Annaly Capital Management, Inc., a Maryland corporation, and its consolidated subsidiaries; the Offeror refers to Mountain Merger Sub Corporation, a Maryland corporation and wholly owned subsidiary of Annaly; and MTGE refers to MTGE Investment Corp., a Maryland corporation, and its consolidated subsidiaries. The acceptance time for purposes of this document and the merger agreement is the time that Annaly will accept for payment, subject to the terms and conditions of the merger agreement, all shares of MTGE common stock, par value $0.01 per share (the MTGE common stock), that are validly tendered and not validly withdrawn in the offer.

Who is offering to buy my shares of MTGE common stock and why I am receiving this document?

Annaly Capital Management, Inc. and the Offeror are making this offer to exchange cash and shares of Annaly common stock, par value $0.01 per share (the Annaly common stock) for shares of MTGE common stock pursuant to the Agreement and Plan of Merger, dated as of May 2, 2018, entered into by Annaly, the Offeror and MTGE, which is referred to as the merger agreement . You are receiving this document because you own shares of MTGE common stock.

Annaly is a leading diversified capital manager that invests in and finances residential and commercial assets. Annaly s principal business objective is to generate net income for distribution to its shareholders and to preserve capital through prudent selection of investments and continuous management of its portfolio. Annaly has elected to be taxed as a real estate investment trust, or REIT, for U.S. federal income tax purposes. Annaly is externally managed by Annaly Management Company LLC.

What are the classes and amounts of MTGE securities that Annaly is seeking to acquire in the offer?

Annaly is seeking to acquire all of the issued and outstanding shares of MTGE common stock in the offer.

What will I receive for my shares of MTGE common stock in the offer?

Annaly and the Offeror are offering to exchange for each outstanding share of MTGE common stock validly tendered and not validly withdrawn in the offer:

- $9.82 in cash; and
- 0.9519 shares of Annaly common stock together with cash in lieu of any fractional shares of Annaly common stock.

We refer to the above as the mixed consideration.

In lieu of receiving the mixed consideration, holders of shares of MTGE common stock may elect to receive, for each share of MTGE common stock that they hold, (1) $19.65 in cash (we refer to this election as the all-cash election and this amount as the all-cash consideration) or (2) 1.9037 shares of Annaly common stock, together with cash in lieu of any fractional shares of Annaly common stock (we refer to this election as the all-stock election and this amount as the all-stock consideration). The mixed consideration, the all-cash consideration and the all-stock consideration (as applicable) will be paid without interest and less any applicable withholding taxes (such consideration, the common transaction consideration).

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MTGE common stockholders who validly tender and do not validly withdraw their shares of MTGE common stock in the offer but who do not make a valid election will receive the mixed consideration for their shares of MTGE common stock. MTGE common stockholders who make the all-cash election or the all-stock election will be subject to proration so that approximately 50.0% of the aggregate consideration in the offer will be paid in shares of Annaly common stock and approximately 50.0% of the aggregate consideration in the offer will be paid in cash. See The Offer Elections and Proration for a description of the proration procedure.

MTGE common stockholders should consider the potential effects of proration and should obtain current market quotations for shares of MTGE common stock and shares of Annaly common stock before deciding whether to tender pursuant to the offer and before electing the form of consideration they wish to receive. The market value of the stock portion of the common transaction consideration will change as the market value of Annaly common stock fluctuates during the offer period and thereafter. Please see Risk Factors Risk Factors Relating to the Offer and the Merger.

What will happen to my shares of MTGE preferred stock?

If you own shares of MTGE s 8.125% Series A Cumulative Redeemable Preferred Stock, par value $0.01 per share (the MTGE Series A preferred stock), you do not need to do anything in connection with the offer, as the offer is not applicable to the MTGE Series A preferred stock. If the offer is completed, in connection with the completion of the merger, each issued and outstanding share of MTGE Series A preferred stock will be automatically converted into the right to receive one share of Annaly s 8.125% Series H Cumulative Redeemable Preferred Stock, par value $0.01 per share (the Annaly Series H preferred stock) on substantially the same terms.

Will I have to pay any fee or commission to exchange my shares of MTGE common stock?

If you are the record owner of your shares of MTGE common stock and you tender these shares in the offer, you will not have to pay any brokerage fees, commissions or similar expenses. If you own your shares of MTGE common stock through a broker, dealer, commercial bank, trust company or other nominee and your broker, dealer, commercial bank, trust company or other nominee tenders your shares of MTGE common stock on your behalf, your broker or such other nominee may charge a fee for doing so. You should consult your broker, dealer, commercial bank, trust company or other nominee to determine whether any charges will apply.

Why is Annaly making this offer and what is the purpose of the merger?

The purpose of the offer is for Annaly to acquire control of, and ultimately own the entire common equity interest in, MTGE. The offer is the first step in Annaly s plan to acquire all of the outstanding shares of MTGE common stock. Annaly intends to consummate the merger promptly following the completion of the offer. The purpose of the merger is for Annaly to acquire all of the issued and outstanding shares of MTGE common stock that it did not acquire in the offer. After the merger, the MTGE business will be held in a wholly owned subsidiary of Annaly, and the former MTGE stockholders will no longer have any direct ownership interest in this entity.

What does the MTGE board of directors recommend?

The MTGE board of directors, acting upon the unanimous recommendation of a special committee of the MTGE board of directors comprised of three independent directors (the MTGE special committee), has resolved to recommend that the MTGE stockholders accept the offer and tender their shares of MTGE common stock to Annaly in the offer. The MTGE board of directors, upon the unanimous recommendation of the MTGE special committee, also determined that the terms of the merger agreement and the transactions, including the offer, the merger and the issuance of shares of Annaly common stock in connection therewith, are in the best interests of MTGE and its stockholders, and declared the offer, the merger and the other transactions contemplated by the merger agreement advisable.

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See The Offer MTGE s Reasons for the Offer and the Merger; Recommendation of the MTGE Board of Directors for more information. A description of the reasons for this recommendation is also set forth in MTGE s Solicitation/Recommendation Statement on Schedule 14D-9 (the Schedule 14D-9) that is being mailed to you together with this document.

What are the most significant conditions of the offer?

The offer is conditioned upon, among other things, the following:

1. ***Minimum Tender Condition*** MTGE common stockholders having validly tendered and not validly withdrawn in accordance with the terms of the offer and prior to the expiration of the offer a number of shares of MTGE common stock that, together with any shares of MTGE common stock then owned by Annaly and the Offeror, represents at least a majority of the then-outstanding shares of MTGE common stock at any expiration of the offer (the minimum tender condition);

2. ***Effectiveness of Form S-4*** The registration statement on Form S-4, of which this document is a part, having become effective under the U.S. Securities Act of 1933, as amended (the Securities Act), and must not be the subject of any stop order or proceeding seeking a stop order, at any expiration of the offer;

3. ***No MTGE Material Adverse Effect*** There not having occurred and continuing prior to the expiration of the offer any change, effect, development, circumstance, condition, state of facts, event or occurrence after the date of the merger agreement that has had or would reasonably be expected to have, individually or in the aggregate, a material adverse effect on MTGE and its subsidiaries (with such term as defined in the merger agreement and described under Merger Agreement Material Adverse Effect);

4. ***No Annaly Material Adverse Effect*** There not having occurred and continuing prior to the expiration of the offer any change, effect, development, circumstance, condition, state of facts, event or occurrence after the date of the merger agreement that has had or would reasonably be expected to have, individually or in the aggregate, a material adverse effect on Annaly and its subsidiaries (with such term as defined in the merger agreement and described under Merger Agreement Material Adverse Effect);

5. ***Accuracy of MTGE s Representations and Warranties*** The representations and warranties of MTGE contained in the merger agreement being true and correct as of the expiration of the offer, subject to specified materiality standards;

6. ***MTGE s Compliance with Covenants*** MTGE must have, in all material respects, performed or complied with its obligations, agreements and covenants required to be performed or complied with by it under the merger agreement at or prior to the expiration of the offer;

7.

Accuracy of Annaly s and the Offeror s Representations and Warranties The representations and warranties of Annaly and the Offeror contained in the merger agreement being true and correct as of the expiration of the offer, subject to specified materiality standards;

8. ***Annaly s and the Offeror s Compliance with Covenants*** each of Annaly and the Offeror must have, in all material respects, performed or complied with their agreements and covenants required to be performed or complied with by it under the merger agreement at or prior to the expiration of the offer;

9. ***Listing of Annaly Common Stock and Annaly Preferred Stock*** The shares of Annaly common stock to be issued in the offer and the merger and the shares of Annaly Series H preferred stock to be issued in the merger having been approved for listing on the NYSE, subject to official notice of issuance;

10. ***No Legal Prohibition*** No law, order or injunction (whether temporary, preliminary or permanent) restraining or enjoining or otherwise prohibiting the consummation of the offer or the merger must have been enacted, issued, promulgated or granted by a governmental entity of competent jurisdiction;

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11. ***Regulatory Approvals*** The approvals of the U.S. Department of Housing and Urban Development (HUD), the HUD lenders/servicers of certain loans financed by HUD and the Federal National Mortgage Association (Fannie Mae), if required, must have been obtained at or prior to the expiration of the offer;

12. ***Transaction Tax Opinions*** The receipt of a written opinion by each of Annaly and MTGE from its legal counsel, dated as of the expiration date, to the effect that the offer and the merger, taken together, will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the Code); and

13. ***REIT Tax Opinions*** The receipt of a written opinion by each of Annaly and MTGE from the other party s tax counsel, dated as of the expiration date, to the effect that at all times since a specified date and, with respect to Annaly, through the expiration date or, with respect to MTGE, through and including the taxable year that ends on the effective time of the merger, such company has been organized and operated in conformity with the requirements for qualification as a REIT under the Code and, with respect to Annaly, that the proposed method of operation of Annaly will enable Annaly to continue to meet the requirements for qualification as a REIT under the Code.

The offer is subject to certain other conditions set forth below in the section entitled The Offer Conditions of the Offer. The conditions to the offer are for the sole benefit of Annaly and the Offeror and may be asserted by Annaly or the Offeror regardless of the circumstances giving rise to any such condition (other than as a result of any action or inaction by Annaly or the Offeror that is completely within the control of Annaly or the Offeror), and may be waived by Annaly or the Offeror, by express and specific action to that effect, in whole or in part at any time and from time to time. However, certain specified conditions (including all the conditions noted above other than the conditions related to a material adverse effect on MTGE, accuracy of MTGE s representations, MTGE s compliance with covenants and receipt by Annaly of the transaction and REIT tax opinions noted above) may only be waived by Annaly or the Offeror with the express written consent of MTGE. Pursuant to the merger agreement, MTGE has the right to require that Annaly and the Offeror waive the conditions set forth in the fourth, seventh, eighth, twelfth and thirteenth paragraphs above (no material adverse effect on Annaly, accuracy of Annaly s and the Offeror s representations and warranties, Annaly s and the Offeror s compliance with covenants, MTGE s receipt of the transaction tax opinion and MTGE s receipt of the REIT tax opinion). There is no financing condition to the offer.

How long will it take to complete the offer and the merger?

The offer and the merger are expected to be completed during the third quarter of 2018, subject to the satisfaction or waiver of the conditions described in the sections entitled The Offer Conditions of the Offer and Merger Agreement Conditions to the Merger.

How long do I have to decide whether to tender my shares of MTGE common stock in the offer?

The offer is scheduled to expire at 5:00 p.m., Eastern Time, on June 18, 2018, unless further extended or terminated. Any extension, delay, termination, waiver or amendment of the offer will be followed as promptly as practicable by public announcement thereof to be made no later than 9:00 a.m., Eastern Time, on the next business day after the previously scheduled expiration date. During any such extension, all of the shares of MTGE common stock previously tendered and not validly withdrawn will remain subject to the offer, subject to the rights of a tendering stockholder to withdraw such stockholder s shares. Expiration date means 5:00 p.m., Eastern Time, on June 18, 2018, unless and until the Offeror has extended the period during which the offer is open, subject to the terms and conditions of the merger agreement, in which event the term expiration date means the latest time and date at which the offer, as so extended by the Offeror, will expire.

Subject to the provisions of the merger agreement and the applicable rules and regulations of the Securities and Exchange Commission (SEC), and unless MTGE consents otherwise or the merger agreement is otherwise

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terminated, the Offeror must (1) extend the offer for one or more successive periods of up to 10 business days each (or for such longer period as may be agreed by MTGE) in order to further seek to satisfy the conditions to the offer in the event that any of the offer conditions (other than the minimum tender condition) have not been satisfied or validly waived as of any then scheduled expiration of the offer, (2) extend the offer for up to two successive periods of 10 business days each (or such longer or shorter period as may be agreed by MTGE) if each of the offer conditions (other than the minimum tender condition) has been satisfied or validly waived and the minimum tender condition has not been satisfied as of the scheduled expiration of the offer, and MTGE requests that the Offeror so extend the offer, and (3) extend the offer for the minimum period required by any rule, regulation, interpretation or position of the SEC or its staff or NYSE or Nasdaq that is applicable to the offer or the merger or to the extent necessary to resolve any comments of the SEC or its staff applicable to the offer, the merger, the Schedule TO or the related offer documents. However, the Offeror is not required to extend the offer beyond February 2, 2019 (which is the outside date).

Any decision to extend the offer will be made public by an announcement regarding such extension as described under the section entitled The Offer Extension, Termination and Amendment.

How do I tender my shares of MTGE common stock?

To tender your shares of MTGE common stock represented by physical certificates in the offer, you must deliver the certificates representing such shares, together with a completed letter of election and transmittal and any other documents required by the letter of election and transmittal, to Computershare Trust Company, N.A. (Computershare), the depositary and exchange agent for the offer, not later than the expiration date. The letter of election and transmittal is enclosed with this document.

To tender your shares of MTGE common stock in electronic book-entry form, you must deliver an agent s message in connection with a book-entry transfer, and any other required documents, to the exchange agent at its address set forth elsewhere in this document and follow the other procedures for book-entry tender set forth herein, not later than the expiration date.

If your shares of MTGE common stock are held in street name (*i.e.*, through a broker, dealer, commercial bank, trust company or other nominee), these shares can be tendered by your nominee by book-entry transfer through The Depository Trust Company.

We are not providing for guaranteed delivery procedures and therefore you must allow sufficient time for the necessary tender procedures to be completed during normal business hours of The Depository Trust Company prior to the expiration date. Tenders received by the exchange agent after the expiration date will be disregarded and of no effect. In all cases, you will receive your consideration for your tendered shares of MTGE common stock only after timely receipt by the exchange agent of certificates for such shares (or of a confirmation of a book-entry transfer of such shares) and a properly completed and duly executed letter of election and transmittal and any other required documents.

For a complete discussion on the procedures for tendering your shares of MTGE common stock, see The Offer Procedure for Tendering.

Until what time can I withdraw tendered shares of MTGE common stock?

You may withdraw your previously tendered shares of MTGE common stock at any time until the offer has expired and, if the Offeror has not accepted your shares of MTGE common stock for payment by July 15, 2018, you may withdraw them at any time on or after that date until the Offeror accepts shares for payment. Once the Offeror accepts your tendered shares of MTGE common stock for payment upon expiration of the offer, however, you will no longer be able to withdraw them. For a complete discussion of the procedures for withdrawing your shares of MTGE common stock, see The Offer Withdrawal Rights.

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How do I withdraw previously tendered shares of MTGE common stock?

To withdraw previously tendered shares of MTGE common stock, you must deliver a written notice of withdrawal with the required information to the exchange agent at any time that you have the right to withdraw shares. If you tendered shares of MTGE common stock by giving instructions to a broker, dealer, commercial bank, trust company or other nominee, you must instruct such broker, dealer, commercial bank, trust company or other nominee to arrange for the withdrawal of your shares of MTGE common stock and such broker, dealer, commercial bank, trust company or other nominee must effectively withdraw such shares at any time that you have the right to withdraw shares. For a discussion on the procedures for withdrawing your shares of MTGE common stock, including the applicable deadlines for effecting withdrawals, see The Offer Withdrawal Rights.

When and how can I expect to receive the offer consideration in exchange for my tendered shares of MTGE common stock?

The Offeror will exchange all validly tendered and not validly withdrawn shares of MTGE common stock promptly after the expiration date, subject to the terms thereof and the satisfaction or waiver of the conditions to the offer, as set forth in The Offer Conditions of the Offer. The Offeror will deliver the consideration for your validly tendered and not validly withdrawn shares through the exchange agent, that will act as your agent for the purpose of receiving the common transaction consideration from the Offeror and transmitting such consideration to you. In all cases, you will receive the consideration for your tendered shares of MTGE common stock only after timely receipt by the exchange agent of certificates representing such shares of MTGE common stock (or a confirmation of a book-entry transfer of such shares as described in the section entitled The Offer Procedure for Tendering) and a properly completed and duly executed letter of election and transmittal and any other required documents for such shares.

Why does the cover page to this document state that this offer is preliminary and subject to change, and that the registration statement filed with the SEC is not yet effective? Does this mean that the offer has not commenced?

No. Completion of this document and effectiveness of the registration statement are not necessary to commence this offer. The offer was commenced on May 16, 2018, the date of the initial filing of the registration statement on Form S-4 of which this document is a part. The Offeror cannot, however, accept for exchange any shares of MTGE common stock tendered in the offer or exchange any shares until the registration statement is declared effective by the SEC and the other conditions to the offer have been satisfied or waived.

What happens if I do not tender my shares of MTGE common stock?

If, after consummation of the offer, Annaly and the Offeror own a majority of the outstanding shares of MTGE common stock, Annaly and the Offeror intend to promptly complete the merger. Upon consummation of the merger, each issued and outstanding share of MTGE common stock that has not been tendered and accepted for exchange in the offer will be converted in the merger into the right to receive, at the election of the holder, the all-cash consideration, the all-stock consideration or the mixed consideration, but the all-cash consideration and all-stock consideration will be subject to proration so that approximately 50.0% of the aggregate consideration in the merger will be paid in shares of Annaly common stock and approximately 50.0% of the aggregate consideration in the merger will be paid in cash. A letter of election and transmittal will be sent to you following the merger to make these elections. The election deadline to make these elections will be 5:00 p.m. Eastern Time, on the 20th calendar day following the date on which such forms of election and transmittal are mailed. If you do not make a valid election, you will be treated as if you had made an election to receive the mixed consideration.

If the offer is completed, will MTGE continue as a public company?

No. Annaly is required, on the terms and subject to the satisfaction or waiver of the conditions set forth in the merger agreement, to consummate the merger promptly following the purchase of shares of MTGE common

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stock in the offer. Upon the effective time of the merger, MTGE will no longer be publicly traded. If, for some reason, the merger does not take place, and Annaly (through the Offeror) purchases all of the shares of MTGE common stock validly tendered and not validly withdrawn, there may be so few remaining stockholders and publicly held shares that MTGE common stock will no longer be eligible to be traded through Nasdaq or other securities exchanges, there may not be an active public trading market for MTGE common stock, and MTGE may no longer be required to make filings with the SEC or otherwise comply with the SEC rules relating to publicly held companies.

Will the offer be followed by a merger if all of the shares of MTGE common stock are not tendered in the offer?

Yes, unless the conditions to the merger are not satisfied or waived. If the Offeror accepts for payment all of the shares of MTGE common stock validly tendered and not validly withdrawn pursuant to the offer, and the other conditions to the merger are satisfied or waived, the merger will take place promptly after the consummation of the offer. If the merger takes place, Annaly will own 100% of the equity of MTGE, and all of the remaining holders of MTGE common stock, other than Annaly and the Offeror, will have the right to receive the mixed consideration, the all-cash consideration or the all-stock consideration, in each case without interest and less any applicable withholding taxes, with the form of such consideration to be subject to further proration as described in this document (such consideration, the common transaction consideration).

Because the merger will be governed by Section 3-106.1 of the Maryland General Corporation Law (the MGCL), no stockholder vote will be required to consummate the merger in the event that the offer is consummated. Annaly is required, on the terms and subject to the satisfaction or waiver of the conditions set forth in the merger agreement, to consummate the merger promptly following the consummation of the offer. As such, Annaly does not expect there to be a significant period of time between the consummation of the offer and the consummation of the merger.

Does Annaly have the financial resources to complete the offer and the merger?

Yes. The common transaction consideration will consist of Annaly common stock and cash. The offer and the merger are not conditioned upon any financing arrangements or contingencies.

What are the U.S. federal income tax consequences of receiving shares of Annaly common stock and/or cash in exchange for my shares of MTGE common stock in the offer and/or the merger?

The offer and the merger, taken together, are intended to qualify as a reorganization within the meaning of Section 368(a) of the Code. If the offer and the merger, taken together, qualify as a reorganization within the meaning of Section 368(a) of the Code, the U.S. federal income tax consequences to U.S. holders (as defined herein) of MTGE common stock who receive shares of Annaly common stock and/or cash in exchange for their shares pursuant to the offer and/or the merger generally will be as follows:

- if a MTGE stockholder receives solely shares of Annaly common stock in exchange for its shares of MTGE common stock, such stockholder generally will not recognize any gain or loss, except with respect to cash received in lieu of a fractional share of Annaly common stock;

- if a MTGE stockholder receives solely cash in exchange for its shares of MTGE common stock, such stockholder generally will recognize gain or loss equal to the difference between the amount of cash received and the stockholder s tax basis in its MTGE common stock surrendered; and

if a MTGE stockholder receives a combination of Annaly common stock and cash in exchange for its shares of MTGE common stock, such stockholder generally will recognize gain (but not loss) in an amount equal to the lesser of (1) the sum of the cash and the fair market value of the Annaly common stock received, less the stockholder s tax basis in its MTGE common stock surrendered, and (2) the amount of cash received.

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Non-U.S. holders (as defined herein) who receive a combination of Annaly common stock and cash in exchange for shares of MTGE common stock pursuant to the offer and/or the merger may be subject to U.S. withholding tax with respect to the cash consideration.

Each MTGE stockholder should read the discussion under Material U.S. Federal Income Tax Consequences and should consult its own tax advisor regarding the U.S. federal, state, local and non-U.S. tax consequences of the offer and the merger to such stockholder in light of its particular circumstances.

Will I have the right to have my shares of MTGE common stock appraised?

No. Appraisal rights, rights of objecting stockholders or dissenters rights are not available in connection with the offer or the merger. See The Offer Purpose of the Offer and the Merger; Dissenters Rights.

Who should I call if I have questions about the offer?

You may call D.F. King & Co., Inc., the information agent, at (800) 669-5550 (toll free for stockholders) or (212) 269-5550 (banks and brokers).

Where can I find more information about Annaly and MTGE?

You can find more information about Annaly and MTGE from various sources described in the section entitled Where To Obtain More Information.

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SUMMARY

This section summarizes certain information presented in greater detail elsewhere in this document. However, this summary does not contain all of the information that may be important to MTGE stockholders. You are urged to carefully read the remainder of this document and the related letter of election and transmittal and the other documents to which we have referred because the information in this section and in the Questions and Answers About the Offer and the Merger section is not complete. See Where To Obtain More Information.

The Offer (Page 29)

Annaly and the Offeror are offering, upon the terms and subject to the conditions set forth in this prospectus/offer to exchange and in the accompanying letter of election and transmittal, to exchange for each outstanding share of MTGE common stock validly tendered and not validly withdrawn in the offer:

- $9.82 in cash; and
- 0.9519 shares of Annaly common stock, together with cash in lieu of any fractional shares of Annaly common stock.

We refer to the above as the mixed consideration.

In lieu of receiving the mixed consideration, holders of shares of MTGE common stock may elect to receive, for each share of MTGE common stock that they hold, either (1) $19.65 in cash (we refer to this election as the all-cash election and this amount as the all-cash consideration) or (2) 1.9037 shares of Annaly common stock, together with cash in lieu of any fractional shares of Annaly common stock (we refer to this election as the all-stock election and this amount as the all-stock consideration). The mixed consideration, the all-cash consideration and the all-stock consideration (as applicable) will be paid without interest and less any applicable withholding taxes (such consideration, the common transaction consideration).

MTGE common stockholders who tender their shares of MTGE common stock in the offer but who do not make a valid election will receive the mixed consideration for their shares of MTGE common stock. MTGE common stockholders who make the all-cash election or the all-stock election will be subject to proration so that approximately 50.0% of the aggregate consideration in the offer will be paid in shares of Annaly common stock and approximately 50.0% of the aggregate consideration in the offer will be paid in cash. See The Offer Elections and Proration for a description of the proration procedure.

MTGE common stockholders will not receive any fractional shares of Annaly common stock in the offer or the merger. No fractional shares of Annaly common stock will be issuable in the offer or the merger and each MTGE stockholder who otherwise would be entitled to receive a fraction of a share of Annaly common stock pursuant to the offer or the merger will be paid an amount in cash (without interest) equal to such fractional part of a share of Annaly common stock multiplied by the volume weighted average closing sale price per share of Annaly common stock as reported on the NYSE for the 10 consecutive trading days ending on the trading day immediately preceding the time Annaly accepts for payment shares of MTGE common stock validly tendered and not validly withdrawn pursuant to the offer. See The Merger Agreement Fractional Shares.

Purpose of the Offer; The Merger; The Merger Consideration (Pages 66, 77 and 77)

The purpose of the offer is for Annaly to acquire control of, and ultimately the 100% of the common equity interests in, MTGE. The offer is the first step in Annaly s plan to acquire all of the outstanding shares of MTGE common stock. Annaly intends to consummate the merger promptly after the consummation of the offer. The purpose of the merger is for Annaly to acquire all of the issued and outstanding shares of MTGE common stock that it did not acquire in the offer.

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In the merger, each outstanding share of MTGE common stock that was not acquired by Annaly or the Offeror will be converted into the mixed consideration or, at the election of the holder of such shares, the all-cash consideration or all-stock consideration, subject to proration so that approximately 50.0% of the aggregate consideration in the merger will be paid in shares of Annaly common stock and approximately 50.0% of the aggregate consideration in the merger will be paid in cash. Following the merger, a letter of election and transmittal will be mailed to such non-tendering stockholders to make these elections. The election deadline to make these elections will be 5:00 p.m. Eastern Time on the 20th calendar day following the date on which the forms of election and transmittal are mailed. If you do not make an election, you will be treated as if you had made an election to receive the mixed consideration.

In addition, in the merger, each issued and outstanding share of MTGE Series A preferred stock will be automatically converted into the right to receive one newly issued share of Annaly Series H preferred stock, which will have rights, preferences, privileges and voting powers substantially the same as those of the MTGE Series A preferred stock.

After the merger, the MTGE business will be held by the Offeror, and the former MTGE common stockholders will no longer have any direct ownership interest in such entity.

Annaly expects to consummate the merger promptly after the consummation of the offer in accordance with Section 3-106.1 of the MGCL, and no stockholder vote to approve the offer or the merger, adopt the merger agreement or approve any other action by the MTGE stockholders will be required in connection with the merger. See The Offer Purpose of the Offer and the Merger; Dissenters Rights.

Treatment of MTGE Restricted Stock Units (Page 82)

At the effective time of the merger, each MTGE restricted stock unit, whether vested or unvested, will automatically be cancelled, with the holder of such restricted stock unit becoming entitled to receive (a) the mixed consideration in respect of each MTGE share underlying such restricted stock unit immediately prior to the effective time, and (b) a cash payment in lieu of any fractional share of Annaly common stock that such holder would otherwise be entitled to receive, in each case, less applicable tax withholdings.

The Companies (Page 28)

Annaly

Annaly Capital Management, Inc.

1211 Avenue of the Americas

New York, New York 10036

Annaly is a leading diversified capital manager that invests in and finances residential and commercial assets. Annaly s principal business objective is to generate net income for distribution to its shareholders and to preserve capital through prudent selection of investments and continuous management of its portfolio. Annaly has elected to be taxed as a real estate investment trust, or REIT, for U.S. federal income tax purposes. Annaly is externally managed by Annaly Management Company LLC. Annaly common stock trades under the ticker symbol NLY on the NYSE.

Offeror

Mountain Merger Sub Corporation

c/o Annaly Capital Management, Inc.

1211 Avenue of the Americas

New York, New York 10036

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The Offeror, a Maryland corporation, is a wholly owned subsidiary of Annaly. The Offeror is newly formed and was organized for the purpose of making the offer and consummating the merger. The Offeror has not engaged in any business activities to date, and it has no material assets or liabilities of any kind, other than those incidental to its formation and those incurred in connection with the merger agreement and the transactions contemplated thereby, including the offer and the merger.

MTGE

MTGE Investment Corp.

2 Bethesda Metro Center, 12th Floor

Bethesda, Maryland 20814

MTGE Investment Corp. is a real estate investment trust that invests in and manages a leveraged portfolio of agency mortgage investments, non-agency mortgage investments and other real estate-related investments. MTGE is externally managed and advised by MTGE Management, LLC, an affiliate of AGNC Investment Corp. (Nasdaq: AGNC).

MTGE s common stock trades under the ticker symbol MTGE on Nasdaq.

Annaly s Reasons for the Offer and the Merger (Page 38)

The purpose of the offer is for Annaly to acquire control of, and ultimately the entire common equity interest in, MTGE. Annaly and the Offeror are making the offer and Annaly plans to complete the merger because it believes that the acquisition of MTGE by Annaly will expand and diversify Annaly s investment portfolio, supporting the continued growth of Annaly s businesses.

Expiration of the Offer (Page 60)

The offer is scheduled to expire at 5:00 p.m., Eastern Time, on June 18, 2018, unless further extended or terminated. Expiration date means 5:00 p.m., Eastern Time, on June 18, 2018, unless and until the Offeror has extended or terminated the period during which the offer is open, subject to the terms and conditions of the merger agreement, in which event the term expiration date means the latest time and date at which the offer, as so extended by the Offeror, will expire.

Extension, Termination and Amendment (Page 61)

Subject to the provisions of the merger agreement and the applicable rules and regulations of the SEC, and unless MTGE consents otherwise or the merger agreement is otherwise terminated, the Offeror must (1) extend the offer for one or more successive periods of up to 10 business days (or such longer period as may be agreed by MTGE) each in order to further seek to satisfy the conditions to the offer in the event that any of the offer conditions (other than the minimum tender condition) have not been satisfied or validly waived as of any then scheduled expiration of the offer, (2) extend the offer for up to two successive periods of 10 business days each (or for such longer or shorter period as may be agreed by MTGE) if each of the offer conditions (other than the minimum tender condition) has been satisfied or validly waived and the minimum tender condition has not been satisfied as of the scheduled expiration of the offer, and MTGE requests that the Offeror so extend the offer, and (3) extend the offer for the minimum period required by any rule, regulation, interpretation or position of the SEC or its staff or NYSE or Nasdaq which is applicable to the offer or the merger or to the extent necessary to resolve any comments of the SEC or its staff applicable to the offer, the merger, the Schedule TO or the related offer documents. However, the Offeror is not required to extend the offer beyond the outside date.

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The Offeror will effect any extension, termination, amendment or delay by giving oral or written notice to the exchange agent and by making a public announcement as promptly as practicable thereafter as described under The Offer Extension, Termination and Amendment.

In the case of an extension, any such announcement will be issued no later than 9:00 a.m., Eastern Time, on the next business day following the previously scheduled expiration date. Subject to applicable law (including Rules 14d-4(c) and 14d-6(d) under the U.S. Securities Exchange Act of 1934, as amended (the Exchange Act), which require that any material change in the information published, sent or given to stockholders in connection with the offer be promptly disseminated to stockholders in a manner reasonably designed to inform them of such change) and without limiting the manner in which the Offeror may choose to make any public announcement, the Offeror assumes no obligation to publish, advertise or otherwise communicate any such public announcement of this type other than by issuing a press release. During any extension, shares of MTGE common stock previously tendered and not validly withdrawn will remain subject to the offer, subject to the right of each MTGE stockholder to withdraw previously tendered shares of MTGE common stock.

The merger agreement provides that the merger agreement may be terminated if the offer has not been consummated on or before 11:59 p.m., Eastern Time, on February 2, 2019, and the Offeror may not extend the offer beyond such date without the prior written consent of MTGE.

No subsequent offering period will be available following the expiration of the offer.

Conditions of the Offer (Page 68)

The offer is subject to certain conditions, including:

- that MTGE stockholders have validly tendered and not validly withdrawn in accordance with the terms of the offer and prior to the expiration of the offer a number of shares of MTGE common stock that, together with any shares of MTGE common stock then owned by Annaly and the Offeror, represents at least a majority of the then-outstanding shares of MTGE common stock at any expiration of the offer;

- the effectiveness of the registration statement on Form S-4 of which this document is a part;

- no material adverse effect on MTGE and its subsidiaries (as defined in the merger agreement and described under The Merger Agreement Material Adverse Effect) having occurred and continuing prior to the expiration of the offer;

- no material adverse effect on Annaly and its subsidiaries (as defined in the merger agreement and described under The Merger Agreement Material Adverse Effect) having occurred and continuing prior to the expiration of the offer;

- the truth and accuracy of MTGE s representations and warranties made in the merger agreement, subject to specified materiality standards;

MTGE being in material compliance with its covenants under the merger agreement;

the truth and accuracy of Annaly s and the Offeror s representations and warranties made in the merger agreement, subject to specified materiality standards;

Annaly and the Offeror being in material compliance with their covenants under the merger agreement;

the listing on the NYSE of the shares of Annaly common stock to be issued in the offer and the merger and the shares of Annaly Series H preferred stock to be issued in the merger;

lack of legal prohibitions;

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- receipt of approvals of HUD, lenders/servicers of certain loans financed by HUD and Fannie Mae, if required;

- the receipt of opinions by each of Annaly and MTGE from their respective legal counsel regarding the U.S. federal income tax treatment of the offer and the merger; and

- the receipt of opinions by each of Annaly and MTGE from the other party s respective legal counsel regarding each of Annaly s and MTGE s qualification as a REIT.

Subject to applicable SEC rules and regulations, the Offeror also reserves the right, in its sole discretion, at any time or from time to time to waive any condition identified as subject to waiver in The Offer Conditions of the Offer by giving oral or written notice of such waiver to the exchange agent. However, certain specified conditions (including all conditions noted in the immediately preceding list other than third, fifth, sixth, eleventh, twelfth and thirteenth conditions listed above and other than the receipt by Annaly of the opinions noted above) may only be waived by Annaly or the Offeror with the express written consent of MTGE. Pursuant to the merger agreement, MTGE has the right to require that Annaly and the Offeror waive the fourth, seventh and eighth conditions listed above and the conditions related to receipt by MTGE of the opinions listed above.

Withdrawal Rights (Page 63)

Tendered shares of MTGE common stock may be withdrawn at any time prior to the expiration date. Additionally, if the Offeror has not agreed to accept the shares for exchange on or prior to July 15, 2018, MTGE common stockholders may thereafter withdraw their shares from tender at any time after such date until the Offeror accepts the shares for exchange. Once the Offeror accepts shares for exchange pursuant to the offer, all tenders not previously withdrawn become irrevocable.

Procedure for Tendering (Page 63)

To validly tender shares of MTGE common stock pursuant to the offer, MTGE common stockholders must:

- deliver a properly completed and duly executed letter of election and transmittal, along with any required signature guarantees and any other required documents, and certificates for tendered shares of MTGE common stock to the exchange agent at its address set forth elsewhere in this document, all of which must be received by the exchange agent prior to the expiration date; or

- deliver an agent s message in connection with a book-entry transfer, and any other required documents, to the exchange agent at its address set forth elsewhere in this document, and shares must be tendered pursuant to the procedures for book-entry tender set forth herein (and a confirmation of receipt of that tender received), and in each case be received by the exchange agent prior to the expiration date.

MTGE common stockholders who hold shares of MTGE common stock in street name through a bank, broker or other nominee holder, and desire to tender their shares of MTGE common stock pursuant to the offer, should instruct the nominee holder to do so prior to the expiration date.

Exchange of Shares; Delivery of Cash and Annaly Shares (Page 62)

Upon the terms and subject to the satisfaction or waiver of the conditions of the offer (including, if the offer is extended or amended, the terms and conditions of any extension or amendment), promptly following the expiration date, the Offeror will accept for exchange, and will exchange, all shares of MTGE common stock validly tendered and not validly withdrawn prior to the expiration date.

Elections and Proration (Page 57)

By indicating their elections in the applicable section of the letter of election and transmittal, MTGE common stockholders may elect to receive the mixed consideration, the all-cash consideration or the all-stock consideration in exchange for each share of MTGE common stock validly tendered and not validly withdrawn pursuant to the offer, subject in each case to the election procedures and, in the case of elections of the all-cash consideration or the all-stock consideration, to the proration procedures described in this document and the related letter of election and transmittal. If a MTGE common stockholder decides to change its election after tendering its shares of MTGE common stock, it must first validly withdraw the tendered shares of MTGE common stock and then re-tender (and not validly withdraw) the shares prior to the expiration date, with a new letter of election and transmittal that indicates the revised election. MTGE common stockholders who tender their shares of MTGE common stock in the offer but who do not make a valid election will receive the mixed consideration for their shares of MTGE common stock.

Certain Legal Matters; Regulatory Approvals (Page 71)

Annaly and MTGE conduct operations in a number of jurisdictions where regulatory filings or approvals may be required or advisable in connection with the completion of the offer and the merger. In particular, because certain subsidiaries of MTGE are borrowers under loans insured by HUD or serviced loans insured by the U.S. Federal Housing Administration, an office of HUD, or owned by Fannie Mae, the approval of HUD and Fannie Mae may be required to close the offer. Additionally, it is a condition to the closing of the offer that these regulatory approvals, if required, are obtained, which condition may be waived by Annaly in its sole discretion. Annaly and MTGE have initiated a process to obtain these approvals.

Annaly has been advised that the offer and the merger are exempt from the pre-notification and waiting period requirements of the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the HSR Act). Therefore, we are not attempting to comply with those requirements. The fact that a transaction is exempt from the requirements of the HSR Act does not preclude the Department of Justice or the Federal Trade Commission from seeking to prevent the transaction on the ground that it violates the United States antitrust laws. However, we do not believe that the offer or the merger will be viewed as violating the antitrust laws.

Interests of Certain Persons in the Offer and the Merger (Page 72)

In considering the recommendation of the MTGE board of directors that you accept the offer and tender your shares of MTGE common stock to the Offeror pursuant to the offer, you should be aware that the MTGE directors may have interests that are different from, or in addition to, the interests of MTGE stockholders generally, including the treatment of outstanding restricted stock units held by directors pursuant to the merger agreement, effective as of the closing of the transactions contemplated by the merger agreement.

Management Agreement Termination (Page 73)

In connection with the execution of the merger agreement, MTGE, MTGE TRS, LLC, the MTGE external manager, and Annaly entered into an amendment to the amended and restated MTGE management agreement dated as of July 1, 2016 (the MTGE management agreement), which provides that one month following completion of the merger, the MTGE management agreement will terminate (such time, the termination time). Pursuant to the termination provisions set forth in the MTGE management agreement, in the event the MTGE external manager is terminated without cause, it is entitled to a termination fee equal to three times the average annual management fee earned by the MTGE external manager during the 24-month period immediately preceding the most recently completed month prior to the termination. Accordingly, MTGE will pay the MTGE external manager $36,659,461.54 million upon the completion of the merger, and $5,000,000 at the termination

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time (for an aggregate termination fee of $41,659,461.54). The amendment provides that in addition to the termination fee, MTGE will pay the MTGE external manager for accrued management fees through and until the termination time and will reimburse the MTGE external manager for expenses it incurs prior to the termination time in the ordinary course of business and consistent with past practice to the extent reimbursable pursuant to the MTGE management agreement. In addition, the indemnification obligations included in the management agreement shall survive the termination. Subject to completion of the transactions contemplated by the merger agreement, Annaly has guaranteed payment of the termination fee and amounts that become owed to the Manager under the management agreement.

The amendment to the MTGE management agreement also provides that the MTGE external manager may not intentionally and knowingly take any action, directly or indirectly, that is prohibited to be taken by MTGE representatives as it relates to such representatives non-solicitation obligations under the merger agreement, and the MTGE external manager is required to otherwise comply with the non-solicitation obligations applicable to MTGE representatives under the merger agreement. However, to the extent that MTGE is permitted to, and in fact does, engage in discussions or negotiations regarding an acquisition proposal in accordance with the merger agreement, the MTGE external manager may assist MTGE in such discussions or negotiations. The MTGE external manager further agreed that, other than those actions that MTGE is permitted to take under the merger agreement, or as required by law, it will not intentionally and knowingly take any action that would reasonably be expected to cause any of the conditions to the offer or the merger to fail to be satisfied.

Source and Amount of Funds (Page 74)

The offer and the merger are not conditioned upon any financing arrangements or contingencies.

Annaly estimates the aggregate amount of cash consideration required to purchase the outstanding shares of MTGE common stock and consummate the merger will be approximately $450.1 million, plus related fees and expenses. Annaly anticipates that the funds needed to complete the transactions will be derived from available cash on hand. Neither Annaly nor the Offeror have any specific alternative financing plans in connection with the offer or the merger. See The Offer Source and Amount of Funds.

Dissenters Rights (Page 66)

No appraisal rights, rights of objecting stockholders or dissenters rights are available in connection with the offer or the merger. See The Offer Purpose of the Offer and the Merger; Dissenters Rights.

Comparative Market Price and Dividend Matters (Page 98)

Annaly common stock is listed on the NYSE under the symbol NLY and MTGE common stock is listed on Nasdaq under the symbol MTGE. On May 1, 2018, the trading day prior to public announcement of the merger agreement, the closing price per share of MTGE common stock on Nasdaq was $18.15, and the closing price per share of Annaly common stock on the NYSE was $10.34. On May 15, 2018, the most recent trading date prior to the mailing of this document, the closing price per share of MTGE common stock on Nasdaq was $19.65, and the closing price per share of Annaly common stock on the NYSE was $10.33.

The market value of the stock portion of the common transaction consideration will change as the market value of Annaly common stock fluctuates during the offer period and thereafter. MTGE common stockholders should obtain current market quotations for MTGE common stock and Annaly common stock before deciding whether to tender their shares of MTGE common stock in the offer and before electing the form of common transaction consideration they wish to receive. See Comparative Market Price and Dividend Matters.

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Ownership of Annaly Common Stock After the Offer and the Merger (Page 66)

Annaly estimates that former MTGE common stockholders would own, in the aggregate, approximately 4% of the shares of Annaly common stock outstanding after the merger. For a detailed discussion of the assumptions on which this estimate is based, see The Offer Ownership of Annaly Common Stock After the Offer and the Merger.

Comparison of Stockholders Rights (Page 149)

The rights of Annaly common stockholders are different in some respects from the rights of MTGE common stockholders. Therefore, MTGE common stockholders who become Annaly common stockholders as a result of the offer and/or the merger will have different rights once they become Annaly common stockholders. The differences are described in more detail under Comparison of Stockholders Rights.

Material U.S. Federal Income Tax Consequences (Page 100)

The offer and the merger, taken together, are intended to qualify as a reorganization within the meaning of Section 368(a) of the Code. If the offer and the merger, taken together, qualify as a reorganization within the meaning of Section 368(a) of the Code, the U.S. federal income tax consequences U.S. holders (as defined herein) of MTGE common stock who receive shares of Annaly common stock and/or cash in exchange for their shares pursuant to the offer and/or the merger generally will be as follows:

- if a MTGE stockholder receives solely shares of Annaly common stock in exchange for its shares of MTGE common stock, such stockholder generally will not recognize any gain or loss, except with respect to cash received in lieu of a fractional share of Annaly common stock;

- if a MTGE stockholder receives solely cash in exchange for its shares of MTGE common stock, such stockholder generally will recognize gain or loss equal to the difference between the amount of cash received and the stockholder s tax basis in its shares surrendered; and

- if a MTGE stockholder receives a combination of Annaly common stock and cash in exchange for its shares of MTGE common stock, such stockholder generally will recognize gain (but not loss) in an amount equal to the lesser of (1) the sum of the cash and the fair market value of the Annaly common stock received, minus the stockholder s tax basis in its shares surrendered, and (2) the amount of cash received.

Non-U.S. holders (as defined herein) who receive a combination of Annaly common stock and cash in exchange for shares of MTGE common stock pursuant to the offer and/or the merger may be subject to U.S. withholding tax with respect to the cash consideration.

Each MTGE stockholder should read the discussion under Material U.S. Federal Income Tax Consequences and should consult its own tax advisor regarding the U.S. federal, state, local and non-U.S. tax consequences of the offer and the merger to such stockholder in light of its particular circumstances.

Accounting Treatment (Page 74)

In accordance with accounting principles generally accepted in the United States (GAAP), Annaly will account for the acquisition of shares through the offer and the merger under the acquisition method of accounting for business combinations.

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Questions about the Offer and the Merger

Questions or requests for assistance or additional copies of this document may be directed to the information agent at the telephone number and addresses set forth below. Stockholders may also contact their broker, dealer, commercial bank, trust company or other nominee for assistance concerning the offer.

The information agent for the offer is:

D.F. King & Co., Inc.

48 Wall Street, 22nd Floor

New York, New York 10005

Bankers & Brokers Call: (212) 269-5550

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SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA OF ANNALY

The following table sets forth summary consolidated financial data for Annaly as of and for each of the five years ended December 31, 2017, 2016, 2015, 2014 and 2013 and as of and for each of the three months ended March 31, 2018 and 2017. All references to fiscal years, unless otherwise noted, refer to the twelve-month fiscal year.

The summary consolidated financial data as of December 31, 2017 and 2016, and for the years ended December 31, 2017, 2016 and 2015, were derived from Annaly s audited consolidated financial statements included in its Annual Report on Form 10-K for the period ended December 31, 2017, previously filed with the SEC on February 16, 2018 and incorporated by reference into this document. The summary consolidated financial data as of December 31, 2015, 2014 and 2013, and for the years ended December 31, 2014 and 2013, were derived from Annaly s audited consolidated financial statements not included in or incorporated by reference into this document. The summary consolidated financial data as of and for the three months ended March 31, 2018 was derived from Annaly s unaudited consolidated financial statements included in its Quarterly Report on Form 10-Q for the period ended March 31, 2018, previously filed with the SEC on May 3, 2018 and incorporated by reference into this document. The summary consolidated financial data as of and for the three months ended March 31, 2017 was derived from Annaly s unaudited consolidated financial statements included in its Quarterly Report on Form 10-Q for the period ended March 31, 2017, previously filed with the SEC on May 5, 2017 and which is not included in or incorporated by reference into this document.

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Such financial data should be read together with, and is qualified in its entirety by reference to, Annaly s historical consolidated financial statements and the accompanying notes and the Management s Discussion and Analysis of Financial Condition and Results of Operations, which are set forth in the above-referenced Annual Report on Form 10-K.

in thousands,	For the Three Months Ended March 31,		For the Years Ended December 31,				
re data)	2018	2017	2017	2016	2015	2014	20
ent of ons Data:							
income	$ 879,487	$ 587,727	$ 2,493,126	$ 2,210,951	$ 2,170,697	$ 2,632,398	$ 2,9
expense	367,421	198,425	1,008,354	657,752	471,596	512,659	6
rest income	512,066	389,302	1,484,772	1,553,199	1,699,101	2,119,739	2,2
l and ed gains	844,689	74,265	199,493	84,204	(1,021,351)	(2,791,399)	1,5
come (loss)	34,023	31,646	115,857	44,144	(13,717)	44,044	
otal general inistrative s	62,510	53,828	224,124	250,356	200,240	209,338	2
(loss) before taxes and from equity investment ate	1,328,268	441,385	1,575,998	1,431,191	463,793	(836,954)	3,7
ncome taxes	564	977	6,982	(1,595)	(1,954)	5,325	
ome (loss)	1,327,704	440,408	1,569,016	1,432,786	465,747	(842,279)	3,7
ome (loss) able to rolling	(96)	(103)	(588)	(970)	(809)	(196)	
ome (loss) able to	1,327,800	440,511	1,569,604	1,433,756	466,556	(842,083)	3,7
ds on ed stock	$ 33,766	$ 23,473	$ 109,635	$82,260	$ 71,968	$ 71,968	$
ome (loss) e (related) to n lders	1,294,034	417,038	1,459,969	1,351,496	394,588	(914,051)	3,6

ome (loss) per vailable) to common lders:													
	$	1.12	$	0.41	$	1.37	$	1.39	$	0.42	$	(0.96)	$
	$	1.12	$	0.41	$	1.37	$	1.39	$	0.42	$	(0.96)	$
ed average r of common outstanding:													
		1,159,617,848		1,018,942,746		1,065,923,652		969,787,583		947,062,099		947,539,294	947,3
		1,160,103,185		1,019,307,379		1,066,351,616		970,102,353		947,276,742		947,539,294	995,5
inancial													
sets	$	100,382,233	$	84,658,957	$	101,760,050	$	87,905,046	$	75,190,893	$	88,355,367	$ 81,9
uity	$	13,942,935	$	12,647,349	$	14,871,573	$	12,575,972	$	11,905,922	$	13,333,781	$ 12,4
ds declared mon share		0.30		0.30		1.20		1.20		1.20		1.20	
earnings to arges (1)(2)		4.11x		2.38x		2.06x		2.16x		1.36x		0.32x	
earnings to ed fixed and preferred vidends (1)(2)		3.88x		2.28x		1.98x		2.08x		1.34x		0.36x	

(1) Includes unrealized gains (losses) on investments and/or derivatives.
(2) Fixed charges include realized gains (losses) on interest rate swaps.

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SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA OF MTGE

The following table sets forth summary consolidated financial data for MTGE as of and for each of the five years ended December 31, 2017, 2016, 2015, 2014 and 2013 and as of and for each of the three months ended March 31, 2018 and 2017. All references to fiscal years, unless otherwise noted, refer to the twelve-month fiscal year.

The summary consolidated financial data as of December 31, 2017 and 2016, and for the years ended December 31, 2017, 2016 and 2015 was derived from MTGE s audited consolidated financial statements included in its Annual Report on Form 10-K for the period ended December 31, 2017, previously filed with the SEC on February 27, 2018 and incorporated by reference into this document. The summary consolidated financial data as of December 31, 2015, 2014 and 2013, and for the years ended December 31, 2014 and 2013, were derived from MTGE s audited consolidated financial statements not included in or incorporated by reference into this document. The summary consolidated financial data as of and for the three months ended March 31, 2018 was derived from MTGE s unaudited consolidated financial statements included in its Quarterly Report on Form 10-Q for the period ended March 31, 2018, previously filed with the SEC on May 10, 2018 and incorporated by reference into this document. The summary consolidated financial data as of and for the three months ended March 31, 2017 was derived from MTGE s unaudited consolidated financial statements included in its Quarterly Report on Form 10-Q for the period ended March 31, 2017, previously filed with the SEC on May 9, 2017 and which is not included or incorporated by reference into this document.

Such financial data should be read together with, and is qualified in its entirety by reference to, MTGE s historical consolidated financial statements and the accompanying notes and the Management s Discussion and Analysis of Financial Condition and Results of Operations, which are set forth in the above-referenced Annual Report on Form 10-K.

	For the Quarter Ended March 31,		For the Year Ended December 31,				
	2018	2017	2017	2016	2015	2014	2013
	(all numbers in thousands, except per share data)						
Statement of operations data:							
Interest income	$ 39,630	$ 33,757	$ 143,648	$ 147,770	$ 174,118	$ 183,358	$ 255,699
Interest expense	(17,053)	(10,165)	(52,526)	(39,582)	(30,800)	(28,631)	(38,754)
Net interest income	22,577	23,592	91,122	108,188	143,318	154,727	216,945
Net servicing loss	(200)	(2,427)	(5,337)	(17,690)	(17,367)	(15,213)	(4,139)
Net healthcare investment income	1,965	662	5,862	659			
Other gains (losses)	(40,742)	22,069	90,158	(23,844)	(139,062)	45,265	(270,676)
Expenses	(4,967)	(5,095)	(21,029)	(23,767)	(25,205)	(25,362)	(25,921)
Benefit from (provision for) income tax, net			550	125	(42)	(238)	(679)
Net Income (loss)	(21,367)	38,801	161,326	43,671	(38,358)	159,179	(84,470)
Dividend on preferred stock	(1,117)	(1,117)	(4,468)	(4,468)	(4,468)	(2,718)	

Noncontrolling interest in net income	5	(2)	9	(2)			
Net income (loss) to common shareholders	$ (22,479)	$ 37,682	$ 156,867	$ 39,201	$ (42,826)	$ 156,461	$ (84,470)
Net income (loss) per common share basic and diluted	$ (0.49)	$ 0.82	$ 3.42	$ 0.85	$ (0.85)	$ 3.06	$ (1.59)
Weighted average common shares basic	45,810	45,798	45,805	46,005	50,506	51,176	53,015
Weighted average common shares diluted	45,822	45,806	45,811	46,008	50,519	51,192	53,015
Dividends declared per common share	$ 0.50	$ 0.45	$ 1.85	$ 1.60	$ 1.80	$ 2.60	$ 3.05

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	For the Quarter Ended March 31, 2018	2017	For the Year Ended December 31, 2017	2016	2015	2014	2013
	(all numbers in thousands, except per share data)						
Balance Sheet Data							
Agency securities, at fair value	$ 3,660,403	$ 2,997,725	$ 3,758,181	$ 2,803,168	$ 3,217,252	$ 4,384,139	$ 5,641,682
Non-agency securities, at fair value	$ 833,681	$ 948,495	$ 872,084	$ 1,134,469	$ 1,557,671	$ 1,168,834	$ 1,011,217
Healthcare real estate assets	$ 282,816	$ 119,129	$ 262,833	$ 93,266	$	$	$
Total assets	$ 5,857,808	$ 5,619,182	$ 5,953,036	$ 4,797,155	$ 5,482,402	$ 7,031,252	$ 8,397,865
Financing arrangements	$ 3,945,422	$ 3,271,342	$ 4,050,219	$ 3,311,043	$ 4,107,615	$ 5,423,630	$ 7,158,192
Total liabilities	$ 4,897,212	$ 4,669,039	$ 4,947,414	$ 3,864,110	$ 4,491,290	$ 5,855,283	$ 7,295,145
Total stockholders equity	$ 959,797	$ 949,837	$ 1,005,107	$ 932,730	$ 991,112	$ 1,175,969	$ 1,102,720
Net asset value per common share	$ 19.76	$ 19.54	$ 20.75	$ 19.17	$ 19.66	$ 21.91	$ 21.47
Other Financial Data							
Dividends declared per common share	$ 0.50	$ 0.45	$ 1.85	$ 1.60	$ 1.80	$ 2.60	$ 3.05
Ratio of earnings to fixed charges [1]	(0.3)x	4.7x	4.0x	2.0x	(0.3)x	6.2x	(1.2)x
Ratio of earnings to combined fixed charges and preferred stock dividends [2][3]	(0.2)x	4.3x	3.7x	1.9x	(0.2)x	5.8x	(1.2)x

(1) Fixed charges consist of primarily interest expense, as defined under U.S. generally accepted accounting principles, on our repurchase agreements.

(2) Fixed charges consist of primarily interest expense, as defined under U.S. generally accepted accounting principles, on our repurchase agreements.

(3) There were no shares of preferred stock outstanding prior to 2014, therefore, there are no amounts for preferred stock dividends included in the above calculations.

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COMPARATIVE PER SHARE DATA

(UNAUDITED)

The following table reflects historical information about basic and diluted earnings per share and cash dividends per share of common stock for the three months ended March 31, 2018 and the fiscal year ended December 31, 2017, on a historical basis. In addition, the following table reflects historical information about book value per share for the three months ended March 31, 2018, on a historical basis.

MTGE stockholders should read the information presented in the following table together with the historical financial statements of Annaly and MTGE and the related notes which are incorporated herein by reference.

	Annaly Historical	MTGE Historical
Net income (loss) per share attributable to common stockholders for the three months ended March 31, 2018:		
Basic earnings per share	$ 1.12	($ 0.49)
Diluted earnings per share	$ 1.12	($ 0.49)
Cash dividends declared per share common stock for the three months ended March 31, 2018	$ .30	$ 0.50
Book value per share as of March 31, 2018	$ 10.53	$ 19.76
Net income per share attributable to common stockholders for the year ended December 31, 2017:		
Basic earnings per share	$ 1.37	$ 3.42
Diluted earnings per share	$ 1.37	$ 3.42
Cash dividends declared per share of common stock for the year ended December 31, 2017	$ 1.20	$ 1.85

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RISK FACTORS

MTGE stockholders should carefully read this document and the other documents referred to or incorporated by reference into this document, including in particular the following risk factors, in deciding whether to tender their shares pursuant to the offer. Additional risks and uncertainties not presently known to Annaly or MTGE or that are not currently believed to be important may have adverse effects on the offer, the merger and the combined company.

Risk Factors Relating to the Offer and the Merger

The stock portion of the common transaction consideration is fixed and will not be adjusted. Because the market price of Annaly common stock may fluctuate, MTGE common stockholders cannot be certain of the market value of the common transaction consideration they will receive in exchange for their shares of MTGE common stock in connection with the transactions or the value of Annaly common stock thereafter.

In connection with the offer and the merger, MTGE common stockholders will receive, at their election, the mixed consideration, the all-cash consideration or the all-stock consideration. The mixed consideration and all-stock consideration provide for a fixed number of shares of Annaly common stock for each share of MTGE common stock. In addition, MTGE common stockholders who make the all-cash election or the all-stock election will be subject to proration so that approximately 50.0% of the aggregate consideration in the offer and merger will be paid in shares of Annaly common stock and approximately 50.0% of the aggregate consideration in the offer will be paid in cash. As a result, a portion of the consideration that MTGE common stockholders who make the all-cash election will receive in the offer and the merger may be a fixed number of shares of Annaly common stock. Because the number of shares of Annaly common stock being offered as part of the portion of the common transaction consideration will not vary based on the market value of Annaly common stock, the market value of the common transaction consideration that you will receive in the offer or the merger that is based on the value of Annaly common stock will vary based on the price of such stock at the time you receive the common transaction consideration. The market price of Annaly common stock may decline after the date of this document, after you tender your shares and/or after the offer and the merger are completed.

A decline in the market price of Annaly common stock could result from a variety of factors, some of which are beyond Annaly s control, including, among other things, an increase in interest rates, the possibility that Annaly may not achieve the expected benefits of the acquisition of MTGE as rapidly or to the extent anticipated, MTGE s portfolio and businesses may not perform as anticipated following the transactions, the effect of Annaly s acquisition of MTGE on Annaly s financial results may not meet the expectations of Annaly, financial analysts or investors, or the addition and integration of MTGE s business may be unsuccessful, take longer or be more disruptive than anticipated, as well as numerous factors affecting Annaly and its businesses that are unrelated to MTGE, including the price of the securities and loans in Annaly s existing portfolio.

Because the offer will not be completed until certain conditions have been satisfied or waived, a significant period of time may pass between the commencement of the offer, the time you tender your shares and the time that the Offeror accepts your shares for payment. See The Offer Conditions of the Offer. Therefore, at the time you tender your shares of MTGE common stock pursuant to the offer, you will not know the exact market value of the stock portion of the common transaction consideration that will be issued if the Offeror accepts such shares for payment.

See Comparative Market Price and Dividend Matters of this document. You are urged to obtain current market quotations for MTGE common stock and Annaly common stock.

MTGE common stockholders may not receive all consideration in the form elected.

MTGE common stockholders electing to receive either the all-cash consideration or the all-stock consideration in the offer will be subject to proration so that approximately 50.0% of the aggregate consideration

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in the offer will be paid in shares of Annaly common stock, and approximately 50.0% of the aggregate consideration in the offer will be paid in cash. Similarly, MTGE common stockholders electing to receive either the all-cash consideration or the all-stock consideration in the merger will be subject to proration so that approximately 50.0% of the aggregate consideration in the merger will be paid in shares of Annaly common stock, and approximately 50.0% of the aggregate consideration in the merger will be paid in cash. Accordingly, some of the consideration a MTGE common stockholder receives in the offer or the merger may differ from the type of consideration selected and such difference may be significant. This may result in, among other things, tax consequences that differ from those that would have resulted if the MTGE common stockholder had received solely the form of consideration elected. A discussion of the proration mechanism can be found under the heading The Offer Elections and Proration and a discussion of the material U.S. federal income tax consequences of the offer and the merger can be found under Material U.S. Federal Income Tax Consequences.

The offer remains subject to conditions that neither Annaly nor MTGE can control.

The offer is subject to conditions, including that at least a majority of the outstanding shares of MTGE common stock have been validly tendered in the offer (and not validly withdrawn), receipt of required regulatory approvals, lack of legal prohibitions, no material adverse effect (with such term as defined in the merger agreement and described under the section entitled Merger Agreement Material Adverse Effect) having occurred with respect to MTGE, Annaly and their respective subsidiaries, the truth and accuracy of MTGE s and Annaly s and the Offeror s representations and warranties made in the merger agreement, subject to specified materiality standards, MTGE, Annaly and the Offeror being in material compliance with their covenants under the merger agreement, the listing of the shares of the Annaly common and Series H preferred stock to be issued in the offer and the merger being authorized for listing on the NYSE, the receipt of opinions by each of Annaly and MTGE from their respective legal counsel to the effect that the offer and the merger, taken together, will qualify as a reorganization within the meaning of Section 368(a) of the Code and that each of Annaly and MTGE (as applicable) meet and, in the case of Annaly, will continue to meet after closing of the merger, the requirements for qualification as a REIT under the Code, and the registration statement on Form S-4 of which this document is a part, becoming effective. There are no assurances that some or all of the conditions to the offer will be satisfied or that the conditions will be satisfied in the time frame expected. If the conditions to the offer are not met, then Annaly may, subject to the terms and conditions of the merger agreement, allow the offer to expire, or amend or extend the offer. See The Offer Conditions of the Offer for a discussion of the conditions to the offer.

MTGE common stockholders who receive Annaly common stock in the offer will become Annaly common stockholders. Annaly common stock may be affected by different factors and Annaly common stockholders will have different rights than MTGE common stockholders.

Upon consummation of the offer, MTGE common stockholders receiving shares of Annaly common stock will become common stockholders of Annaly. Annaly s business differs from that of MTGE, and Annaly s results of operations and the trading price of Annaly common stock may be adversely affected by factors different from those that would affect MTGE s results of operations and stock price.

In addition, holders of shares of Annaly common stock will have rights as Annaly common stockholders that differ from the rights they had as MTGE common stockholders before the offer or the merger. For a detailed comparison of the rights of Annaly common stockholders to the rights of MTGE common stockholders, see Comparison of Stockholders Rights.

The receipt of shares of Annaly common stock in the offer and/or the merger may be taxable to MTGE common stockholders.

The offer is conditioned upon the receipt of an opinion by each of Annaly and MTGE from their respective legal counsel to the effect that the offer and the merger, taken together, will qualify as a reorganization within

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the meaning of Section 368(a) of the Code. However, if the offer and the merger are not treated as component parts of an integrated transaction for U.S. federal income tax purposes, if the merger is not completed or if the transaction otherwise fails to qualify as a reorganization within the meaning of Section 368(a) of the Code, the exchange of shares of MTGE common stock for shares of Annaly common stock in the offer and/or the merger will be a taxable transaction for U.S. federal income tax purposes.

MTGE common stockholders should consult their tax advisors regarding the tax consequences to them of the offer and the merger, including any U.S. federal, state, local, non-U.S. or other tax consequences, and any tax return filing or other reporting requirements, in light of their particular circumstances.

Risk Factors Relating to Annaly as the Combined Company

Annaly, as the combined company, may fail to realize all of the anticipated benefits of the merger or those benefits may take longer to realize than expected.

The full benefits of the transactions may not be realized as expected or may not be achieved within the anticipated time-frame, or at all. Failure to achieve the anticipated benefits of the transactions could adversely affect Annaly s results of operations or cash flows, cause dilution to the earnings per share or book value per share of Annaly, decrease or delay the expected accretive effect of the transactions, and negatively impact the price of Annaly common stock.

In addition, Annaly and MTGE will be required to devote significant attention and resources prior to closing to prepare for the post-closing operation of Annaly, as the combined company, and Annaly will be required post-closing to devote significant attention and resources to successfully integrate the MTGE portfolio and operating businesses into the existing Annaly structure. In particular, prior to the acquisition, Annaly will have limited experience managing MTGE s healthcare real estate assets. These businesses present additional regulatory constraints and pose operational risks different from those that Annaly has successfully managed in the past. This integration process, coupled with managing new business lines, may disrupt Annaly s businesses and, if ineffective, would limit the anticipated benefits of the merger and could adversely affect Annaly s results of operations or cash flows, cause dilution to the earnings per share or book value per share of Annaly, decrease or delay the expected accretive effect of the transactions, and negatively impact the price of Annaly common stock.

Annaly and MTGE will incur direct and indirect costs as a result of the offer and the merger.

Annaly and MTGE will incur substantial expenses in connection with and as a result of completing the offer and the merger and, following the completion of the merger, Annaly expects to incur additional expenses in connection with integrating the MTGE portfolio and operating businesses into the existing Annaly structure. Factors beyond Annaly s control could affect the total amount or timing of these expenses, many of which, by their nature, are difficult to estimate accurately.

REITs are subject to a range of complex organizational and operational requirements.

To qualify as a REIT, Annaly must distribute with respect to each taxable year at least 90% of its net income (excluding capital gains) to its stockholders. A REIT must also meet certain other requirements, including with respect to the nature of its income and assets, and the ownership of its stock. For any taxable year that Annaly fails to qualify as a REIT, it will not be allowed a deduction for dividends paid to its stockholders in computing its net taxable income and thus would become subject to U.S. federal, state and local income tax as if it were a regular taxable corporation. In such an event, Annaly could be subject to potentially significant tax liabilities. Unless entitled to relief under certain statutory provisions, Annaly would also be disqualified from treatment as a REIT for the four taxable years following the year in which it lost its qualification. If Annaly failed to qualify as a REIT, the market price of its common stock may decline, and Annaly may need to reduce substantially the amount of distributions to its stockholders because of its increased tax liability.

Risks Related to Annaly s Business

You should read and consider the risk factors specific to Annaly s business that will also affect Annaly, as the combined company, after the merger. These risks are described in Part I, Item 1A of Annaly s Annual Report on Form 10-K for the fiscal year ended December 31, 2017, and in other documents that are incorporated by reference into this document. See Where To Obtain More Information for more detail on the information incorporated by reference in this document.

Risks Related to MTGE s Business

You should read and consider the risk factors specific to MTGE s business that will also affect Annaly, as the combined company, after the merger. These risks are described in Part I, Item 1A of MTGE s Annual Report on Form 10-K for the fiscal year ended December 31, 2017, and in other documents that are incorporated by reference into this document. See Where To Obtain More Information for more detail on the information incorporated by reference in this document.

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FORWARD-LOOKING STATEMENTS

Information both included and incorporated by reference in this document may contain forward-looking statements, concerning, among other things, Annaly s and MTGE s outlook, financial projections and business strategies, all of which are subject to risks, uncertainties and assumptions. These forward-looking statements are identified by their use of terms such as intend, plan, may, should, will, anticipate, believe, could, estimate, forecast, ex potential, opportunity, project and similar terms. These statements are based on certain assumptions and analyses that we believe are appropriate under the circumstances. Should one or more of these risks or uncertainties materialize, or should the assumptions prove incorrect, actual results may differ materially from those expected, estimated or projected. Management believes that these forward-looking statements are reasonable. However, we cannot guarantee that we actually will achieve these plans, intentions or expectations, including completing the offer and the merger on the terms summarized in this document. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to publicly update or revise any of them in light of new information, future events or otherwise. Factors that could have a material adverse effect on Annaly s operations and future prospects or the consummation of the offer and the merger include, but are not limited to:

- failure to satisfy the conditions to consummate the offer and the merger;
- the occurrence of any event, change or other circumstance that could give rise to the termination of the merger agreement;
- the failure of the offer or the merger to close in a timely manner or at all for any other reason, including failure to receive required regulatory approvals;
- the amount of the costs, fees, expenses and charges related to the offer and the merger (collectively, the transactions);
- the ability to successfully integrate MTGE following completion of the transactions;
- failure to realize the expected benefits of the transactions in a timely manner or at all;
- effects of the pendency of the transactions on relationships with employees and business partners;
- general economic and business conditions;
- global economic growth and activity;

- industry conditions;
- changes in interest rates, interest rate spreads and the yield curve;
- changes in prepayment rates;
- the availability of mortgage-backed securities and other securities for purchase;
- the availability of financing, and, if available, the terms of any financing;
- the ability to maintain qualification as a REIT for U.S. federal income tax purposes;
- the ability to maintain an exemption from registration under the Investment Company Act of 1940, as amended;
- changes in program requirements of HUD or Fannie Mae; and
- changes in laws or regulations.

These risks and uncertainties, along with the risk factors discussed or referenced under Risk Factors in this document, should be considered in evaluating any forward-looking statements contained in this document. All forward-looking statements speak only as of the date of this document. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are qualified by the cautionary statements in this section.

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THE COMPANIES

Annaly

Annaly is a leading diversified capital manager that invests in and finances residential and commercial assets. Annaly s principal business objective is to generate net income for distribution to its shareholders and to preserve capital through prudent selection of investments and continuous management of its portfolio. Annaly has elected to be taxed as a real estate investment trust, or REIT, for U.S. federal income tax purposes. Annaly is externally managed by Annaly Management Company LLC.

Annaly s common stock trades under the ticker symbol NLY on the NYSE.

The address of Annaly s principal executive offices is 1211 Avenue of the Americas, New York, New York 10036. Annaly s telephone number is (212) 696-0100.

Annaly also maintains an Internet site at www.annaly.com. Annaly s website and the information contained therein or connected thereto shall not be deemed to be incorporated herein, and you should not rely on any such information in making an investment decision.

Offeror

Mountain Merger Sub Corporation, a Maryland corporation, is a wholly owned subsidiary of Annaly. The Offeror is newly formed, and was organized for the purpose of making the offer and consummating the merger. The Offeror has not engaged in any business activities to date and it has no material assets or liabilities of any kind, other than those incidental to its formation and those incurred in connection with the merger agreement and the transactions contemplated thereby, including the offer and the merger.

The Offeror s address is c/o Annaly Capital Management, Inc., 1211 Avenue of the Americas, New York, New York 10036.

MTGE

MTGE Investment Corp. is a REIT that invests in and manages a leveraged portfolio of agency mortgage investments, non-agency mortgage investments and other real estate-related investments. MTGE is externally managed and advised by MTGE Management, LLC, an affiliate of AGNC Investment Corp. (Nasdaq: AGNC).

MTGE s common stock trades under the ticker symbol MTGE on Nasdaq.

The address of MTGE s principal executive offices is 2 Bethesda Metro Center, 12th Floor, Bethesda, Maryland 20814. MTGE s telephone number is (301) 968-9220.

MTGE also maintains an Internet site at www.mtge.com. MTGE s website and the information contained therein or connected thereto shall not be deemed to be incorporated herein, and you should not rely on any such information in making an investment decision.

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THE OFFER

General

Annaly and the Offeror are offering, upon the terms and subject to the conditions set forth in this prospectus/offer to exchange and in the accompanying letter of election and transmittal, to exchange for each outstanding share of MTGE common stock validly tendered and not validly withdrawn in the offer:

- $9.82 in cash; and

- 0.9519 shares of Annaly common stock, together with cash in lieu of any fractional shares of Annaly common stock.

We refer to the above as the mixed consideration.

In lieu of receiving the mixed consideration, each holder of shares of MTGE common stock may elect to receive, for each share of MTGE common stock that it holds, (1) $19.65 in cash (we refer to this election as the all-cash election and this amount as the all-cash consideration) or (2) 1.9037 shares of Annaly common stock, together with cash in lieu of any fractional shares of Annaly common stock (we refer to this election as the all-stock election and this amount as the all-stock consideration). The mixed consideration, the all-cash consideration and the all-stock consideration (as applicable) will be paid without interest and less any applicable withholding taxes (such consideration, the common transaction consideration).

Each MTGE common stockholder who validly tenders and does not validly withdraw its shares of MTGE common stock in the offer that does not make a valid election will receive the mixed consideration for their shares of MTGE common stock. MTGE common stockholders who make the all-cash election or the all-stock election will be subject to proration so that approximately 50.0% of the aggregate consideration in the offer will be paid in shares of Annaly common stock and approximately 50.0% of the aggregate consideration in the offer will be paid in cash. See The Offer Elections and Proration for a description of the proration procedure.

The purpose of the offer is for Annaly to acquire control of, and ultimately the entire common equity interest in, MTGE. The offer is the first step in Annaly s plan to acquire all of the issued and outstanding shares of MTGE common stock. If the offer is completed, Annaly intends to consummate promptly following the consummation of the offer a merger of MTGE with and into the Offeror, with the Offeror surviving the merger (which we refer to as the merger). The purpose of the merger is for Annaly to acquire all of the issued and outstanding shares of MTGE common stock that it did not acquire in the offer. In the merger, each outstanding share of MTGE common stock that was not acquired by Annaly or the Offeror will be converted into the mixed consideration or, at the election of the holder of such shares, the all-cash consideration or all-stock consideration, subject to proration so that approximately 50.0% of the aggregate consideration in the merger will be paid in shares of Annaly common stock and approximately 50.0% of the aggregate consideration in the merger will be paid in cash.

In addition, in the merger, each outstanding share of MTGE Series A preferred stock will be automatically converted into the right to receive one newly issued share of the Annaly Series H preferred stock, which will have rights, preferences, privileges and voting powers substantially the same as those of the MTGE Series A preferred stock.

After the merger, the MTGE business will be held by the Offeror, and the former MTGE stockholders will no longer have any direct ownership interest in the surviving corporation.

Background of the Offer and the Merger

MTGE is a hybrid mortgage REIT that invests in agency mortgage-backed securities, non-agency mortgage investments and other real estate-related assets, including skilled nursing and senior living facilities operated by third parties.

MTGE is externally managed, meaning that all of its day-to-day operations and affairs are managed by a third-party manager, the MTGE external manager, subject to the oversight and direction of the MTGE board of directors. MTGE has no senior management employees. Rather, under the management agreement between MTGE and the MTGE external manager, the MTGE external manager provides MTGE with executive officers and other services and personnel. The MTGE external manager is wholly owned by AGNC Investment Corp. (AGNC). AGNC owns approximately 5.7% of outstanding MTGE common stock. All but one of the members of the MTGE board of directors during the relevant period were not affiliated with the MTGE external manager or AGNC. Gary Kain, who was MTGE s Chief Executive Officer and a member of the MTGE board of directors during the relevant period, is also Chief Executive Officer of AGNC and a member of the AGNC board of directors. As described in more detail below, all relevant actions and decisions of the MTGE board of directors concerning the transaction were undertaken by and at the direction of the MTGE special committee formed by the MTGE board of directors to review a potential transaction, which was comprised entirely of independent members of the MTGE board of directors not affiliated with the MTGE external manager or AGNC.

The MTGE board of directors regularly reviews MTGE s operations, financial performance, capital structure, strategic initiatives and product portfolio and pipeline. As part of this ongoing review, the MTGE board of directors has regularly evaluated MTGE s long-term strategy, as well as other strategic alternatives that might be available to enhance stockholder value.

On or about January 11, 2018, David Finkelstein, Chief Investment Officer of Annaly, contacted Steve Abrahams (at the time a member of the MTGE board of directors and an independent director) on an informal basis regarding Annaly s potential interest in a strategic transaction with MTGE. The independent members of the MTGE board of directors discussed the communication from Annaly in an executive session of independent directors at an in person meeting of the MTGE board of directors on January 30, 2018. The independent directors conferred by phone again on February 5, 2018, with a representative of Cooley LLP (Cooley), then outside legal counsel to the independent directors, also participating. The directors determined that the general expression of interest without specific terms was not yet actionable and no response was warranted at that time. They informed Mr. Kain of the contact from Annaly in his capacity as MTGE s CEO and a member of the MTGE board of directors. After Mr. Abrahams resigned from the MTGE board of directors on February 12, 2018, Mr. Finkelstein contacted Julia Coronado, a member of the MTGE board of directors and an independent director, on an informal basis on or about February 16, 2018, regarding Annaly s continuing potential interest in a strategic transaction with MTGE. Ms. Coronado informed Mr. Finkelstein that MTGE was not currently considering a strategic transaction, but acknowledged that Annaly was free to submit a more specific proposal.

Subsequently, on February 22, 2018, Annaly delivered an unsolicited non-binding written proposal to Randy Dobbs, Chairman of the MTGE board of directors and an independent director, to acquire 100% of MTGE s capital stock based on a valuation of 95% of the book value of MTGE common stock (the Annaly February 22 Proposal). The Annaly February 22 Proposal was based on publicly-available information and subject to completion of customary due diligence and other conditions. Annaly indicated that it was prepared to pay the purchase price in a consideration mix of cash and Annaly common stock to be agreed by the parties. With respect to MTGE s outstanding shares of preferred stock, Annaly proposed to issue a new series of Annaly preferred stock on substantially similar terms. As part of its proposal, Annaly also requested a 30-day exclusive negotiation period.

On February 26, 2018, the independent directors of the MTGE board of directors held a telephonic meeting to further discuss the process for determining whether to continue as an independent company or to pursue a strategic transaction, including the Annaly February 22 Proposal or an alternative transaction. Mr. Kain did not attend or participate in this meeting. Representatives of Cooley also attended this meeting and reviewed with the MTGE independent directors their legal duties in connection with their consideration of acquisition proposals. The independent directors were cognizant of the fact that AGNC, as the parent entity of the MTGE external manager, could be a logical acquirer of the company and may have interest in making an acquisition proposal if MTGE were to consider a strategic transaction. The independent directors were also mindful that Annaly or another acquirer would likely plan to terminate MTGE s management relationship with the MTGE external manager without cause in connection with an acquisition and therefore MTGE would be required to pay a termination fee of approximately $42 million to the MTGE external manager pursuant to the termination provisions of the management agreement. The amount of the termination fee is prescribed in the management agreement and calculated based on three times the average annual management fee for the prior two-year period, and it was thought that the amount of the fee could affect the prices that Annaly or another acquirer might pay relative to AGNC if it were to make a proposal. Given these considerations and the potential conflicts of interest of AGNC and Mr. Kain, the independent directors and Cooley also discussed the formation of a special committee of the MTGE board of directors consisting of the independent directors to evaluate the Annaly February 22 Proposal and other strategic alternatives. As a next step, the independent directors of the MTGE board of directors instructed Mr. Dobbs to seek additional clarification from Annaly about certain terms of the Annaly February 22 Proposal (including the proposed cash-stock consideration mix, treatment of the potential termination fee payable to the MTGE external manager and integration and operational issues). Mr. Dobbs contacted Kevin Keyes, Chairman, Chief Executive Officer and President of Annaly, by email indicating that the board needed additional information before it could act on the proposal and consider a change in strategic direction.

On March 1, 2018, Annaly delivered a presentation to the independent directors of the MTGE board of directors affirming its proposal to acquire MTGE based on a valuation of 95% of a mutually agreed upon book value of MTGE common stock and proposing an acquisition consideration mix of 50% cash and 50% Annaly common stock. Annaly also clarified that it was prepared to pay the full termination fee to the MTGE external manager. After reviewing this presentation, the independent directors of the MTGE board of directors further discussed the process for considering the proposal and alternatives, including the engagement of a financial advisor. Subsequently, Mr. Dobbs contacted Mr. Keyes by email to inform him that the independent directors were evaluating Annaly s proposal.

On March 15, 2018, the MTGE board of directors, including Mr. Kain, unanimously approved the formation of a special committee of independent directors comprised of Mr. Dobbs, Ms. Coronado and Rob Couch (the MTGE special committee) in connection with the consideration of the Annaly February 22 Proposal and strategic alternatives generally. In particular, the MTGE board of directors authorized the MTGE special committee to consider whether to pursue a strategic transaction with Annaly or other interested parties or remain independent, to negotiate the terms and conditions of a possible transaction, to reject or recommend to the MTGE board of directors for approval of a possible transaction, and to engage legal and financial advisors. The MTGE board of directors retained the authority to recommend any strategic transaction to MTGE s stockholders. The MTGE board of directors appointed Mr. Dobbs as Chairman of the MTGE special committee. Cooley was engaged as counsel to the MTGE special committee.

On March 22, 2018, the MTGE special committee held a telephonic meeting and conducted separate phone interviews with three investment banks (including Barclays) to act as financial advisor to the MTGE special committee in connection with the consideration of a potential strategic transaction. The MTGE special committee discussed the potential financial advisor candidates and their industry knowledge and experience and that the MTGE special committee desired to engage a financial advisor that would best assist the MTGE special committee in determining which alternative would best enhance shareholder value. Representatives of Cooley also attended the meeting and discussed with the MTGE special committee its legal duties in connection with the consideration of a potential strategic transaction.

On March 23, 2018, Annaly submitted an updated non-binding written proposal to Mr. Dobbs providing additional detail on the terms on which Annaly would be prepared to acquire MTGE based on its continuing analysis of MTGE (the Annaly March 23 Proposal). Annaly proposed to acquire MTGE in an all-cash transaction for 95% of MTGE s book value per share, which equated to $19.71 per share based on MTGE s book value per share of $20.75 as of December 31, 2017. This valuation represented a 10.7% premium to MTGE s share price of $17.80 as of March 22,

2018. Annaly indicated that the final price would be based on the book value as of a more recent valuation date and indicated a willingness to include Annaly common shares in the mix

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of consideration if the MTGE special committee preferred a stock component. Annaly reiterated that it was prepared to proceed and complete due diligence expeditiously. Annaly again requested a 30-day exclusive negotiation period. Subsequent to receipt of the Annaly March 23 Proposal, Mr. Dobbs contacted Mr. Keyes by email to inform him that the independent directors were evaluating Annaly s updated proposal.

During this period the MTGE special committee concluded discussions with the financial advisor candidates, and on March 25, 2018, the MTGE special committee informed Barclays of its decision to engage Barclays as its financial advisor in connection with the consideration of a potential strategic transaction. The MTGE special committee entered into the formal engagement agreement with Barclays on March 29, 2018.

On April 2, 2018, the MTGE special committee held a telephonic meeting, with representatives of Barclays and Cooley also attending, to discuss the Annaly March 23 Proposal. The MTGE special committee, together with input from Cooley, discussed the importance of adequately considering strategic alternatives in addition to the Annaly March 23 Proposal in connection with fulfilling its fiduciary duties. The MTGE special committee authorized Barclays to inform Annaly that it had been retained by the MTGE special committee. The MTGE special committee also instructed Barclays to consider additional prospective acquirers, including AGNC, that may be interested in a strategic transaction.

On April 2, 2018, representatives of Barclays held a telephonic conference call with Mr. Keyes and other representatives of Annaly to clarify certain aspects of the Annaly March 23 Proposal.

On April 6, 2018, the MTGE special committee held a telephonic meeting to further discuss the Annaly March 23 Proposal, with representatives of Barclays and Cooley also attending. Barclays made a presentation to the MTGE special committee to assist its consideration of the Annaly March 23 Proposal. Barclays reviewed MTGE s current positioning and outlook relative to its peer group and provided an initial framework for analyzing MTGE s valuation. Barclays also reviewed reasons for the MTGE board of directors to continue pursuing MTGE s diversification strategy as a stand-alone company and reasons to pursue potential strategic alternatives. Barclays also reviewed the current M&A market for the REIT industry and the potential interest of other parties, including AGNC, in a possible strategic transaction with MTGE. Barclays and Cooley also discussed with the MTGE special committee potential sale process considerations and strategy, including how to respond to Annaly and a process to solicit additional parties on their interest in a potential strategic transaction. The MTGE special committee decided to continue its consideration of the various alternatives and instructed Barclays to continue its analysis of the Annaly March 23 Proposal and consideration of other prospective acquirers.

On April 9, 2018, the MTGE special committee held a telephonic meeting, with representatives of Barclays and Cooley also attending, to continue its consideration of the Annaly March 23 Proposal and alternatives. Barclays made a presentation to the MTGE special committee comparing Annaly s proposal to a hypothetical acquisition by AGNC. The MTGE special committee and Barclays viewed AGNC as a logical acquirer with the ability and potential willingness to pay a higher price for MTGE. Barclays also reviewed various process alternatives, and the MTGE special committee instructed Barclays to solicit additional parties, including AGNC, that were believed to be the most able and willing to pay the highest price for MTGE.

On April 10, 2018, Annaly delivered an updated non-binding written proposal to Mr. Dobbs that increased Annaly s proposed price to approximately 98.0% of the book value of MTGE common stock (which equated to $20.33 per common share net of expenses based on MTGE s book value per share as of December 31, 2017), subject to due diligence and other conditions (the Annaly April 10 Proposal). The Annaly April 10 Proposal assumed that Annaly would bear the full cost of the $42 million management termination fee and up to $20 million of additional transaction expenses. Annaly reiterated that it was prepared to pay 100% of the consideration in cash or include a stock component in the consideration mix if the MTGE board of directors preferred. Annaly also indicated that its proposal would expire on April 13, 2018 unless the parties entered into an exclusivity agreement prior to that time.

The MTGE special committee held a telephonic meeting on April 11, 2018 to discuss the Annaly April 10 Proposal, with representatives of Barclays and Cooley also attending. Barclays presented its updated valuation analysis of MTGE and Annaly s latest proposal, including the desirability and relative value of a stock consideration component and the potential for a higher after-tax return for stockholders. The MTGE special committee also discussed Annaly s request for exclusivity and the desirability of obtaining an alternative acquisition proposal from AGNC and other potentially interested parties. The MTGE special committee instructed Barclays to contact AGNC again to encourage it to make an alternative proposal, and to reach out to other potential acquirers.

On April 11, 2018, Barclays reached out to two large REITs (Company A and Company B , respectively) whom Barclays considered would be the most interested and able to engage in a potential strategic transaction. Company A initially declined to pursue an acquisition of MTGE based on its relationship with AGNC. Company B expressed an interest in pursuing an acquisition of MTGE, and Barclays encouraged Company B to work to be in a position to respond with a proposal regarding valuation of MTGE by April 13, 2018. Barclays also contacted AGNC again, who indicated that it would respond with a proposed valuation of MTGE common stock by April 13, 2018.

On April 12, 2018, in a follow up call with Barclays, Company A expressed interest in a potential acquisition but did not indicate a proposed valuation and never submitted an acquisition proposal.

On April 12, 2018, AGNC delivered a non-binding written proposal to Barclays to acquire 100% of the shares of MTGE common stock at 95% of the book value of MTGE common stock, which represented a price of $19.72 per share net of the termination fee and other expenses based on the book value of MTGE common stock as of December 31, 2017 (the AGNC April 12 Proposal). AGNC proposed a consideration mix of cash (20%) and AGNC common stock (80%) for MTGE common stock, with MTGE preferred stock being exchanged for AGNC preferred stock containing substantially similar terms.

On April 13, 2018, Company B verbally indicated that it was considering an offer representing approximately 100% of book value of MTGE common stock based on the latest book value estimate.

On April 13, 2018, the MTGE special committee held a telephonic meeting, with representatives of Barclays and Cooley also attending, to discuss the process and the status of the various proposals. Barclays reviewed and compared the Annaly April 10 Proposal and the AGNC April 12 Proposal. From a financial point of view, the MTGE special committee considered the Annaly April 10 Proposal more favorable to MTGE stockholders based on the higher price and higher mix of cash consideration. Barclays also updated the MTGE special committee on the status of potential proposals from Company A and Company B. Company A had not followed up with an indicative valuation. Barclays noted that the verbal proposal from Company B was based on deal consideration comprised 100% of stock of the acquirer and would likely require a vote of the stockholders of both Company B and MTGE as a condition to closing. The MTGE special committee and Barclays considered the proposal as less favorable to MTGE stockholders. Barclays advised the MTGE special committee that it believed it was unlikely that MTGE would receive an improved offer from Company B in advance of Annaly s deadline to enter into exclusivity.

Based on the status of the various proposals, the MTGE special committee considered the risk probability that Annaly may withdraw its proposal, which the MTGE special committee considered to be the most favorable from a financial point of view, if MTGE did not enter into an exclusivity agreement with Annaly and considered the terms and conditions on which the MTGE special committee may be willing to enter into an exclusive negotiating period with Annaly. The MTGE special committee instructed Barclays to encourage AGNC to increase its price and submit its best offer and to explore an exclusivity arrangement with Annaly based on mutual agreement on certain key terms, including: (1) the diligence and regulatory approval timetables, (2) shortening the exclusivity period to 10-14 days, (3) retaining flexibility for MTGE to elect an all cash transaction or a cash-stock mix based on further analysis and reverse due diligence, and (4) early termination of exclusivity if Annaly adversely changed its price or other material terms of its proposal.

Later that day, the MTGE special committee held another telephonic meeting, with representatives of Barclays and Cooley also attending. Barclays reported that AGNC indicated a willingness to increase its price to 96.0%-96.5% of book value contingent upon the satisfaction of certain conditions but that was likely its best offer and any final agreement at this price would be contingent on a number of factors, including AGNC s stock price performance. Barclays also reported that Company A and Company B had not submitted any further proposals. Following discussion, the MTGE special committee instructed Barclays and Cooley to attempt to negotiate an acceptable exclusivity agreement with Annaly.

Following that meeting and over the weekend, Barclays and Cooley discussed and negotiated the terms of a confidentiality and exclusivity agreement with Annaly s financial advisors, Wells Fargo Securities (Wells Fargo) and Sandler O Neill & Partners, L.P. (Sandler O Neill), and counsel, Wachtell, Lipton, Rosen & Katz (Wachtell Lipton). On April 16, 2018, MTGE and Annaly signed a confidentiality agreement that included mutual confidentiality restrictions, mutual standstill covenants and a 14-day exclusive negotiating period consistent with the terms authorized by the MTGE special committee. The agreement also included information sharing protocols that would facilitate the MTGE special committee s ability to rely on the MTGE external manager during its strategic review process (and, as necessary, during negotiations with third parties) without sharing confidential information with the MTGE external manager regarding the terms of Annaly s proposal and without sharing with the MTGE external manager reverse due diligence information concerning Annaly. The parties also discussed the potential regulatory approvals required for a transaction between the parties and a process for conducting due diligence and reverse due diligence. Certain employees of the MTGE external manager were identified to assist the MTGE special committee and its advisors in facilitating information sharing and Annaly s due diligence review of MTGE, negotiation of certain operationally-specific sections of the merger agreement, the preparation of disclosure schedules to the merger agreement, and the provision of financial projections based on MTGE s business plan to provide a baseline against which the MTGE special committee, with the assistance of Barclays, could evaluate MTGE s prospects, stand-alone value and potential strategic transactions, including Annaly s proposal.

Barclays opened a data room to Annaly and its advisors on April 16, 2018 containing information for their diligence process.

Later that day, on April 16, 2018, Cooley delivered a first draft of a merger agreement to Wachtell Lipton. Among other terms, the initial draft provided for a two-step transaction with an exchange offer followed by a merger pursuant to which all outstanding common shares would be exchanged for cash or a mix of cash and Annaly common stock to be agreed, all outstanding preferred shares would be exchanged for a new class of Annaly preferred stock on substantially the same terms, the full acceleration of all non-executive director equity awards, and customary deal protection terms and exceptions, including rights for the MTGE board of directors to respond to unsolicited acquisition proposals received after the announcement of a transaction, to change its recommendation to MTGE s stockholders following receipt of a superior proposal and to terminate the merger agreement to accept a superior proposal, subject in certain cases to the payment of a termination fee to Annaly equal to 2.5% of the transaction value of MTGE s common equity.

On April 17, 2018, the MTGE special committee held a telephonic meeting, with representatives of Barclays and Cooley also attending. Barclays and Cooley reported on the execution of the confidentiality and exclusivity agreement and the advisors reviewed the status and timeline of a potential transaction.

On April 17, 2018, Barclays and Cooley received access to a data room from Annaly for the purposes of reverse due diligence. On April 18, 2018, representatives of Barclays, Annaly, Wells Fargo and Sandler O Neill met at Annaly s offices in New York City, with representatives of Cooley and Wachtell Lipton joining telephonically, to discuss their respective due diligence investigations. Representatives of the MTGE external manager also joined telephonically, but only for the portion of the meeting covering Annaly s due diligence investigation of MTGE.

Between April 18, 2018 and April 23, 2018, Wachtell Lipton and Cooley exchanged drafts of the merger agreement and had various phone calls to discuss the drafts and open issues. Among other issues, Annaly proposed a higher termination fee (equal to 3.5% of the transaction value of MTGE s common equity) if the MTGE board of directors changed its recommendation or terminated the agreement to accept a superior proposal. Annaly also requested that the MTGE external manager enter into an amendment to the management agreement concurrently with MTGE s entry into a merger agreement to memorialize the parties understanding that the management agreement would be terminated without cause early in connection with the transaction closing.

Also during this time, MTGE and Annaly held a series of due diligence and reverse due diligence calls with their respective advisors. These calls covered, among other topics, financial diligence on MTGE and Annaly, accounting diligence on MTGE and Annaly, diligence on Annaly s financial projections, diligence on MTGE s healthcare real estate assets and diligence on Annaly s commercial real estate assets.

On April 20, 2018, the MTGE special committee had a telephonic meeting, with representatives of Barclays and Cooley also attending. Barclays made a presentation regarding the valuation of Annaly s common stock and how a hypothetical cash stock election could operate and be valued based on a 50%-50% mix and proration. The MTGE special committee and their advisors continued this discussion at a subsequent telephonic meeting on April 22, 2018. They discussed the value to MTGE s stockholders of an all cash transaction versus a mix of cash and stock consideration at various trading prices for Annaly s common stock and the potential desirability of a collar to protect against a drop in the trading price of Annaly s common stock between announcement and closing of a potential transaction. They also discussed Annaly s preference to announce a transaction prior to its quarterly earnings call scheduled for May 3, 2018 and the potential impact of the earnings release and a transaction announcement on Annaly s stock price. Barclays also reported that no new unsolicited proposals had been received from AGNC, Company A, Company B or any other party since MTGE entered into exclusive negotiations with Annaly. After discussion, the MTGE special committee instructed Barclays to communicate to Annaly that MTGE would continue to negotiate expeditiously but would not be unduly rushed and to explore with Annaly s advisors whether Annaly would agree to a stock exchange ratio collar.

On April 24, 2018, the MTGE special committee had a telephonic meeting, with representatives of Barclays and Cooley also attending. Cooley reviewed the material terms of the proposed merger agreement, including the expected timing of the exchange offer and regulatory approvals, the deal protection provisions and termination fee, and the closing conditions. The MTGE special committee and advisors also reviewed the economic terms of Annaly s proposal and expressed a preference for a mix of cash and stock consideration. After discussion, the MTGE special committee instructed Barclays to provide further analysis of a cash-stock election and provided guidance to Cooley on the open merger agreement issues. The MTGE special committee also noted the potential for extending the exclusive negotiation period and determined it would be appropriate to extend for seven days to provide for an additional period of negotiation if needed after Annaly s earnings announcement on May 3, 2018. Later that day, representatives of MTGE and Annaly had a call, with Cooley and Wachtell Lipton (along with regulatory counsel) present, to negotiate the representations and covenants in the merger agreement. That evening, Cooley and Wachtell Lipton continued to discuss the merger agreement and timing of regulatory approvals.

On April 25, 2018 and April 28, 2018, Cooley and Wachtell Lipton had calls with MTGE s and Annaly s outside federal and HUD regulatory counsel, respectively, to discuss required approvals and timelines. Cooley sent Wachtell Lipton a revised draft of the merger agreement later in the day on April 25, 2018.

In the evening of April 25, 2018, MTGE agreed to Annaly s request to extend exclusivity for seven additional days to May 7, 2018.

On April 26, 2018, AGNC delivered an updated unsolicited non-binding written proposal to Barclays that increased its price to 98.25% of book value, which equated to $19.50 per share net of the termination fee and other expenses based on the $19.85 book value of MTGE s common stock as of April 19, 2018 (the AGNC April 26 Proposal). AGNC continued to propose a consideration mix of cash (20%) and AGNC common stock (80%). The AGNC April 26 Proposal was higher than the Annaly April 10 Proposal (98.0%) based on percentage of book value, but neither the MTGE special committee nor its advisors were permitted to engage with AGNC with respect to the April 26 Proposal because MTGE was under exclusivity with Annaly. Barclays reached out to Annaly to inform them that MTGE had received an unsolicited offer from AGNC with a higher price. Barclays did not disclose the terms of the revised AGNC proposal but indicated that the MTGE special committee was no longer in a position to recommend the Annaly April 10 proposal.

On April 27, 2018, Wachtell Lipton sent a revised draft of the merger agreement to Cooley and a draft of Annaly s disclosure letter.

On April 28, 2018, Cooley sent a draft of MTGE s disclosure letter to Wachtell Lipton.

On April 29, 2018, the MTGE special committee held a telephonic meeting, with representatives of Barclays and Cooley also attending, to discuss the AGNC April 26 Proposal. At the beginning of the meeting, Barclays informed the MTGE special committee that it had just received an enhanced verbal proposal from Annaly to increase its price from 98.0% to 100% of the book value of MTGE s common stock based on a consideration mix of cash (50%) and Annaly common stock (50%) (the Annaly April 29 Proposal). Barclays reviewed a presentation on the AGNC April 26 Proposal with the MTGE special committee and compared the Annaly April 29 Proposal that was just received. Barclays informed the MTGE special committee that the Annaly April 29 Proposal was $0.35 per share higher than the AGNC April 26 Proposal after adjusting both prices to reflect a $19.75 per fully diluted share book value valuation as of March 31, 2017. Barclays also informed the MTGE special committee that Annaly was keenly focused on signing the merger agreement and announcing the transaction prior to its earnings call scheduled for the morning of May 3, 2018. To facilitate that timetable, Annaly was also prepared to negotiate the amendment with the MTGE external manager and deliver a termination notice after the merger agreement was signed and announced.

On April 30, 2018, Cooley and Wachtell Lipton discussed the merger agreement terms. Over the course of that discussion, Cooley expressed its view that the merger agreement should be revised to clarify that submission of an acquisition proposal by AGNC after announcement of a merger agreement with Annaly should not be attributed to MTGE (because AGNC is a related-party through the management relationship) or deemed a breach of MTGE s covenant not to solicit acquisition proposals. Cooley also proposed a termination fee of 3.0% of the transaction value of MTGE s common equity. Subsequently, Wachtell Lipton sent Cooley a revised draft of the merger agreement and the disclosure letters. Wachtell Lipton s draft of the merger agreement did not address the acquisition proposal clarification and proposed a 3.33% termination fee.

That evening, the MTGE special committee held a telephonic meeting, with representatives of Barclays and Cooley also attending, to review the status of the open economic and legal terms. Barclays reported that Annaly rejected the concept of a stock exchange ratio collar but was willing to consider offering an independent member of the MTGE board of directors a seat on the Annaly board of directors if that was important to the MTGE special committee. The MTGE special committee instructed Barclays to continue to negotiate for the collar and board seat with Annaly and gave guidance to Cooley with respect to addressing the open legal terms. Cooley and Wachtell Lipton had another call following the MTGE special committee meeting to discuss the open issues in the merger agreement. Following this call, Wachtell Lipton sent Cooley a further revised draft of the merger agreement.

On May 1, 2018, Cooley and Wachtell Lipton had another call to discuss the merger agreement. Wachtell Lipton communicated that, in light of AGNC s proposal, Annaly s position was that MTGE should pay a higher termination fee (of 6%) in the event MTGE changes its recommendation or terminates the merger agreement in connection with an AGNC superior proposal. Cooley responded that a 6% termination fee and a two-tier termination fee would not be acceptable to the MTGE special committee. Later that day Cooley also sent a revised draft of MTGE s disclosure letter to Wachtell Lipton.

On May 1, 2018, the MTGE external manager provided Barclays (who subsequently provided to Annaly, Wells Fargo and Sandler O Neill) an updated estimate of the book value of MTGE s common stock of $19.65 per

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fully diluted share as of April 30, 2018. Representatives of Annaly, Wells Fargo, Sandler O Neill, Barclays and the MTGE external manager held an additional telephonic conference that evening to conduct additional due diligence on this updated estimate.

Over the course of the evening of May 1, 2018 and the morning of May 2, 2018, the advisors of the MTGE special committee and Annaly continued to negotiate resolutions of the open issues. Subject to final approval by the MTGE special committee, Barclays, Wells Fargo and Sandler O Neill agreed on the cash and exchange ratio calculations based on a transaction price of $19.65 per share price net of expenses (representing 100% of the book value of MTGE s common shares as of April 30, 2018) and an Annaly stock price of $10.32 per share (based on a volume weighted average trading price for Annaly s common stock for the ten trading day period ended April 30, 2018), with MTGE stockholders having the right to elect, for each share of MTGE common stock, $19.65 in cash, 1.9037 shares of Annaly common stock, or $9.82 in cash and 0.9519 shares of Annaly common stock, without a collar and subject to proration so that 50% of the aggregate consideration is payable in cash and 50% of the aggregate consideration is payable in shares of Annaly common stock; that an acquisition proposal submitted by AGNC would be treated like an acquisition proposal submitted by any other party; and that there would be a single termination fee of 3.9% of the transaction value of MTGE s common equity (or approximately $35.1 million).

During the evening of May 1, 2018, representatives of Annaly and representatives of the MTGE external manager also spoke concerning the termination of the management agreement and Annaly s need for a short transition period after closing. They agreed to negotiate an amendment to the management agreement that could be executed concurrently with the execution of the merger agreement.

Also on May 1, 2018 and May 2, 2018, representatives of Annaly and their advisors held several telephonic conferences with representatives of MTGE, MTGE s advisors and the MTGE external manager to complete due diligence.

On the morning of May 2, 2018, the MTGE special committee held a telephonic meeting, with representatives of Barclays and Cooley also attending. Representatives of Barclays reviewed the sales process and its financial analysis of the proposed economic terms. At the conclusion of its presentation, Barclays rendered to the MTGE special committee its oral opinion, which was subsequently confirmed by delivery of a written opinion, dated as of May 2, 2018, that, as of the date of such opinion, and based upon and subject to the matters and the limitations set forth therein, the aggregate consideration to be paid to the holders of MTGE common stock (other than as specified in such opinion) is fair from a financial point of view to such holders. For a more detailed discussion of Barclays opinion, please see below under the caption Opinion of the MTGE Special Committee s Financial Advisor. The opinion of Barclays is attached to MTGE s Schedule 14D-9 as Annex A. Representatives of Cooley then reviewed the material terms of the proposed merger agreement and the proposed authorizing resolutions for approval by the MTGE special committee. Cooley also reported that Annaly and the MTGE external manager were in the process of negotiating an amendment to the management agreement, which needed to be completed prior to final MTGE special committee approval. Following discussion, the meeting was adjourned until later in the day.

Following the meeting of the MTGE special committee, the MTGE board of directors held a telephonic meeting, with representatives of Cooley also attending. At this meeting, consistent with the board s prior determination, Mr. Kain informed the other members of the MTGE board of directors that he would recuse himself from the board s deliberations and vote on the proposed transaction in light of his role with AGNC. After Mr. Kain left the meeting, the MTGE board of directors then suspended its meeting agreeing to reconvene later in the day once the final terms of the transaction were negotiated.

During the day of May 2, 2018, MTGE, Annaly, the MTGE external manager, Cooley and Wachtell Lipton finalized the merger agreement, disclosure schedules and the amendment to the management agreement.

At 4:00 p.m. on May 2, 2018, the MTGE special committee held a telephonic meeting to approve the final terms of the transaction, with representatives of Barclays and Cooley also attending. During this meeting, Cooley updated the MTGE special committee on the final terms of the merger agreement and amendment to the management agreement. Following consideration of the merger agreement and the transactions contemplated by the merger agreement, including consideration of the factors described in MTGE s Reasons for the Offer and the Merger; Recommendation of the MTGE Board of Directors, the MTGE special committee unanimously recommended that the MTGE board of directors (a) determine that the merger agreement and the transactions contemplated thereby, including the offer and the merger, are advisable to, and in the best interests of, MTGE and its stockholders, (b) agree that the merger shall be effected under Section 3-106.1 of the MGCL, (c) approve the execution, delivery and performance by MTGE of the merger agreement and the consummation of the transactions contemplated thereby, including the offer and the merger, and (d) resolve to recommend that the stockholders of MTGE tender their shares in connection with the offer.

The prior meeting of the MTGE board of directors reconvened immediately following the meeting of the MTGE special committee. During this meeting, the independent directors of the MTGE board (a) determined that the merger agreement and the transactions contemplated thereby, including the offer and the merger, are advisable to, and in the best interests of, MTGE and its stockholders, (b) agreed that the merger shall be effected under Section 3-106.1 of the MGCL, (c) approved the execution, delivery and performance by MTGE of the merger agreement and the consummation of the transactions contemplated thereby, including the offer and the merger, and (d) resolved to recommend that the stockholders of MTGE tender their shares in connection with the offer.

Following the MTGE board meeting, the definitive merger agreement was executed and publicly announced on the afternoon of May 2, 2018 after the close of the market.

Annaly s Reasons for the Offer and the Merger

In reaching its decision to approve the merger agreement and the transactions contemplated thereby, including the offer and the merger, Annaly s board of directors consulted with Annaly s senior management team and external manager, as well as Annaly s outside advisors, and considered a number of factors, including the following material factors (not in any relative order of importance), which it viewed as supporting its decision to approve the merger agreement and the transactions contemplated thereby, including the offer and the merger:

- the fact that MTGE s portfolio consists primarily of agency and non-agency residential backed mortgage securities and healthcare real estate assets and the expectation that these assets will be complementary to Annaly s existing portfolio;

- the expectation that the combined company s enhanced capital base will support the continued growth of all businesses;

- the expectation that the acquisition would create incremental efficiency and growth opportunities;

- the fact that the offer and merger are expected to be accretive to Annaly s core earnings and to provide a competitive cash-on-cash return;

the expectation that the merger and offer would further enhance Annaly s leadership position in the fragmented mortgage REIT market;

the amount and form of consideration to be paid in the offer and merger, including the fact that the exchange ratio and aggregate mix of consideration to be paid are fixed;

the view that the terms and conditions of the merger agreement and the transactions contemplated thereby, including the representations, warranties, covenants, closing conditions and termination provisions, are comprehensive and favorable to completing the proposed transaction;

the fact that the merger agreement places limitations on MTGE s ability to seek a superior proposal and requires MTGE to pay Annaly a termination fee of $35,118,500 if Annaly or MTGE terminates the merger agreement under certain circumstances, including if MTGE consummates or enters into an agreement with respect to a competing acquisition proposal within a specified time period after termination of the merger agreement under certain circumstances;

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- the scope and results of the due diligence investigation of MTGE conducted by Annaly management and outside advisors, and the findings of that investigation;

- current financial market conditions and forecast and the current and historical market prices, and trading information with respect to, shares of Annaly and MTGE common stock; and

- the recommendation of Annaly s management and external manager in favor of the offer and the merger.

The Annaly board of directors also considered a variety of uncertainties and risks and other potentially negative factors concerning the transactions, including the following (not in any relative order of importance):

- the risk that the acquisition of MTGE might not be completed in a timely manner or at all and the attendant adverse consequences for Annaly s and MTGE s businesses as a result of the pendency of the acquisition and operational disruption;

- costs associated with the offer and the merger;

- the risk that the offer and merger may not be consummated despite the parties efforts or that the closing of the transactions may be unduly delayed due to regulatory processes or other factors outside of the parties control;

- the risks associated with the occurrence of events which may materially and adversely affect the operations or financial condition of MTGE and its subsidiaries, which may not entitle Annaly to terminate the merger agreement;

- the risk that the potential benefits of the acquisition may not be fully or partially achieved, or may not be achieved within the expected time frame;

- the challenges and difficulties relating to combining the portfolios and operations of Annaly and MTGE;

- the risk of diverting Annaly s management s focus and resources from other strategic opportunities and from operational matters while working to implement the transaction with MTGE, and other potential disruption associated with combining the companies, and the potential effects of such diversion and disruption on the businesses of Annaly and MTGE;

- the effects of general competitive, economic, political and market conditions and fluctuations on Annaly, MTGE or the combined company; and various other risks associated with the acquisition and the businesses of Annaly, MTGE and the combined company, some of which are discussed or referenced under Risk Factors.

The Annaly board of directors concluded that the potential negative factors associated with the acquisition were outweighed by the potential benefits that it expected Annaly to achieve as a result of the offer and the merger. Accordingly, the Annaly board of directors approved the merger agreement and the transactions contemplated thereby, including the offer and the merger.

The foregoing discussion of the information and factors considered by the Annaly board of directors is not intended to be exhaustive, but includes the material factors considered by the Annaly board of directors. In view of the variety of factors considered in connection with its evaluation of the acquisition, the Annaly board of directors did not find it practicable to, and did not, quantify or otherwise assign relative weights to the specific factors considered in reaching its determination. In addition, individual directors may have given different weights to different factors. The Annaly board of directors did not undertake to make any specific determination as to whether any factor, or any particular aspect of any factor, supported or did not support its ultimate determination. The Annaly board of directors based its determination on the totality of the information presented.

MTGE s Reasons for the Offer and the Merger; Recommendation of the MTGE Board of Directors

The MTGE board of directors, acting upon the unanimous recommendation of the MTGE special committee, has (i) determined that the terms of the offer, the merger and the transactions contemplated by the merger agreement, are in the best interests of MTGE and its stockholders, (ii) declared the offer, the merger and the other transactions contemplated by the merger agreement advisable, (iii) approved the execution and delivery by MTGE of the merger agreement, the performance by MTGE of its covenants and agreements contained in the merger agreement and the consummation of the offer, the merger and the other transactions contemplated by the merger agreement on the terms and subject to the conditions contained therein, and (iv) resolved to recommend that MTGE stockholders accept the offer and tender their shares of MTGE common stock to Annaly in the offer.

In evaluating the merger agreement and the transactions contemplated by the merger agreement, including the offer, the merger and the issuance of shares of Annaly common stock in connection therewith, the MTGE special committee (consisting entirely of independent directors) and the MTGE board of directors consulted with their financial and legal advisors, including Barclays, as financial advisor to the MTGE special committee, and Cooley, as counsel to the MTGE special committee.

In the course of reaching a determination that the offer and the merger are in the best interests of MTGE and its stockholders, and a recommendation that the holders of MTGE common stock accept the offer and tender their shares of MTGE common stock to Annaly in the offer, the MTGE special committee and the MTGE board of directors considered numerous factors, including the following material factors and benefits of the offer and the merger, each of which the MTGE special committee and the MTGE board of directors believed supported its determination and recommendation:

Recommendation of the MTGE Special Committee. The MTGE board of directors considered the unanimous recommendation of the MTGE special committee that the MTGE board of directors determine that the terms of the merger agreement and the transactions contemplated by the merger agreement, including the offer, the merger and the issuance of shares of Annaly common stock in connection therewith, are in the best interests of MTGE and its stockholders and declare the offer, the merger and the other transactions contemplated by the merger agreement advisable, as well as the independence of the members of the MTGE special committee making such recommendation and the independence, experience and expertise of Barclays as the financial advisor to the MTGE special committee.

Industry and Business Considerations. The MTGE special committee and the MTGE board of directors considered the current and historical industry conditions and the financial condition, results of operations, business, and financing prospects of MTGE, including the following:

the challenges facing the residential mortgage REIT sector in general, including significant uncertainty regarding the outlook for interest rates as well as uncertainty regarding the outlook for the financial markets generally;

the challenges facing MTGE in particular, including that, since June 23, 2017, the price per share of MTGE common stock has traded at a discount to MTGE s tangible book value per share, which makes raising equity capital to fund new investments dilutive to shareholders and has made it difficult for MTGE to significantly increase its size and scale through capital market transactions; and

the general views of the members of the MTGE special committee and the MTGE board of directors with respect to the business, financial condition, current business strategy and prospects of MTGE, including the potential challenges for MTGE to continue to access financing resources on acceptable terms.

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Offer Price and Right to Participate in Annaly s Future Growth. The MTGE special committee and the MTGE board of directors considered:

- the fact that the value of the consideration represents a premium of approximately 12% to the 60-day volume-weighted average price of MTGE common stock ending on April 30, 2018;

- the fact that for each outstanding share of MTGE common stock accepted for payment in the offer or converted and exchanged in the merger the holder thereof will be entitled to receive approximately 50% of the consideration in Annaly common stock and, therefore, participate in the upside potential of the combined company;

- the ability for stockholders to elect stock consideration which may allow them to defer a portion of their taxable gain;

- the fact that in lieu of receiving the mixed consideration, holders of shares of MTGE common stock may elect to receive, for each share of MTGE common stock that they hold, the all-cash consideration or the all-stock consideration, in each case, subject to proration;

- the belief of the MTGE special committee that as a result of extensive negotiations between the parties it had obtained Annaly s best and final offer for the MTGE common stock, which was increased multiple times from Annaly s initial proposal of 95% of book value to 100% of book value per share; and

- the offer and the merger are expected to be immediately accretive to Annaly s earnings per share.

Evaluation of Strategic Alternatives. The MTGE special committee s and the MTGE board of directors belief that the value offered to MTGE s stockholders in the offer and merger was more favorable to MTGE s stockholders on a risk-adjusted basis than the potential value of remaining an independent public company and that the value per share obtained was the highest per share consideration that was reasonably attainable. This belief was supported in part by the results of the MTGE special committee s evaluation of strategic alternatives, through which MTGE and its financial advisors engaged with other parties that were believed to be the most able and willing to pay the highest price for MTGE and MTGE received alternative acquisition proposals that were not as favorable to MTGE and its stockholders as the offer and merger with Annaly (as more fully described above in Background of the Offer and the Merger).

Negotiations with Annaly. The MTGE special committee considered the course of negotiations between MTGE and Annaly, resulting in multiple increases in the price per share originally offered by Annaly, as well as several changes in the terms and conditions of the merger agreement from the terms and conditions proposed by Annaly that were favorable to MTGE. The MTGE special committee believed, based on these negotiations, that the offer price was the highest price per share that Annaly was willing to pay and that the merger agreement contained the most favorable terms to MTGE to which Annaly was willing to agree.

No Financing Condition. The MTGE special committee considered the contractual representation of Annaly and Offeror that they would have access to sufficient funds to pay the amounts required to be paid under the merger agreement and that the offer and the merger are not subject to a financing condition.

Benefits of Combining with Annaly of Increased Scale, Portfolio Diversity and other Operating Considerations. The MTGE special committee and the MTGE board of directors considered the following benefits and operating considerations in combining with Annaly:

- the increased portfolio diversification of the combined company, taking into account Annaly s diversified portfolio of agency and non-agency mortgage-backed securities, commercial real estate debt and equity and commercial credit and MTGE s portfolio which consists of agency and non-agency residential mortgage backed securities and healthcare real estate assets;

- the potential access to capital and asset acquisition opportunities resulting from the scale and resources of the combined company, the fact that Annaly s average expenses have historically been a lower percentage of assets and equity than other residential mortgage REITs, and the potential for increased capital allocation alternatives for the combined company;

- the potential access to additional financing resources that would not be available to MTGE as a stand-alone company; and

- the continuing access to Annaly s external manager with broad expertise and resources to invest across a range of asset classes at a cost that has historically been a lower percentage of assets and equity than other residential mortgage REITs.

Opinion of Barclays and Related Analysis. The MTGE special committee and the MTGE board of directors considered the oral opinion of Barclays, subsequently confirmed in writing, dated May 2, 2018, that, as of such date, based upon and subject to the assumptions made, procedures followed, matters considered, and qualifications and limitations upon the review undertaken by Barclays in preparing its written opinion, as set forth in such written opinion, the Aggregate Consideration (as defined in the written opinion) to be offered to the holders of the shares of MTGE common stock (other than the stockholders of Cancelled Shares (as defined in the written opinion)) in the offer was fair from a financial point of view to such holders, as more fully described below in Opinion of MTGE s Financial Advisor. The MTGE special committee and the MTGE board of directors were aware that Barclays will become entitled to certain fees upon consummation of the offer and merger, as more fully described below in Opinion of the MTGE Special Committee s Financial Advisor.

Other Terms of the Merger Agreement. The MTGE special committee and the MTGE board of directors considered certain other terms of the merger agreement, which are more fully described under the caption *Merger Agreement*. Certain provisions of the merger agreement that the MTGE special committee and the MTGE board of directors considered important included:

- the merger agreement provides for the prompt commencement of the offer, which may enable holders of MTGE common stock who tender their shares into the offer to receive their consideration more quickly than in a transaction structured as a one-step merger;

- the ability to respond to unsolicited acquisition proposals by the MTGE board of directors, upon the recommendation of the MTGE special committee and determination that the failure to take such action would be inconsistent with the directors duties under applicable law, and to engage in negotiations or discussions with third parties regarding alternative transactions under certain circumstances (see Merger Agreement No Solicitation of Other Offers by *MTGE* for more information);

- the right of the MTGE board of directors to change or withdraw its recommendation to holders of MTGE common stock, following receipt of an unsolicited superior proposal or upon the occurrence of certain other intervening events and upon the recommendation of the MTGE special committee and determination that the failure to take such action would be inconsistent with the directors duties under applicable law (see Merger Agreement No Solicitation of Other Offers by MTGE for more information);

the right of the MTGE board of directors to terminate the merger agreement and to accept a superior proposal, if certain conditions are met, subject to the payment of the termination fee to Annaly (see Merger Agreement Termination of the Merger Agreement Termination by MTGE for more information);

the fact that Offeror s obligations to purchase (and Annaly s obligation to cause the Offeror to purchase) the shares of MTGE common stock tendered in the offer and to close the merger are subject to limited conditions, and that the offer and the merger are reasonably likely to be consummated; and the fact that the Offeror must generally extend the offer for one or more periods until the offer conditions have been satisfied.

The MTGE special committee in making its recommendation to the MTGE board of directors and the MTGE board of directors in making its determination also identified and considered the following potentially negative factors in its deliberations:

Fluctuations in the Price of Annaly Common Stock. The MTGE special committee and the MTGE board of directors considered the fact that holders of shares of MTGE common stock who receive shares of Annaly common stock in the offer or the merger will receive a fixed number of shares of Annaly common stock which is based on the MTGE common stock being valued at $19.65 per share and the volume weighted average closing price of Annaly common stock for the ten trading day period ended April 30, 2018, and such number of shares will not be adjusted for any decrease in the trading price of shares of Annaly common stock between the date of the merger agreement and the completion of the offer or the merger, and the fact that MTGE is not permitted to terminate the merger agreement solely because of changes in the market price of shares of Annaly common stock;

Non-Solicitation Covenant. The MTGE special committee and the MTGE board of directors considered the fact that the merger agreement imposes restrictions on soliciting and responding to competing acquisition proposals from third parties;

Termination Fee. The MTGE special committee and the MTGE board of directors considered that the termination fee of $35,118,500.00 payable in cash to Annaly if the merger agreement is terminated under certain circumstances, including if the merger agreement is terminated in order for the MTGE board of directors to accept a superior proposal, may discourage third parties that may otherwise have an interest in a business combination with, or an acquisition of, MTGE from pursuing such a transaction;

Interim Operating Covenants. The MTGE special committee and the MTGE board of directors considered that the merger agreement imposes restrictions on the conduct of the business of MTGE and its subsidiaries prior to the consummation of the merger (see Merger Agreement Conduct of Business Before Completion of the Merger Restrictions on MTGE s Operations);

Risks the Offer and Merger May Not Be Completed. The MTGE special committee and the MTGE board of directors considered the following factors in connection with the risk that the offer and the merger may not be completed:

the risk that the conditions to the offer may not be satisfied and that, therefore, shares of MTGE common stock may not be purchased pursuant to the offer and the merger may not be consummated; and the risks and costs to MTGE of the adverse effect of the resulting public announcement of any termination of the merger agreement on the market price of shares of MTGE common stock, and operating results of MTGE, particularly in light of the diversion of management resources from operational matters and other strategic opportunities and the costs incurred in connection with the transaction;

Potential Conflict of Interest Relating to Termination of Management Agreement. The MTGE special committee and the MTGE board of directors considered the potential conflict of interest created as a result of the amendment to, and termination of, the management agreement in connection with the transaction and the resulting payment of a termination fee to the MTGE external manager;

Interests of Directors and Executive Officers. The MTGE special committee and the MTGE board of directors considered the interests of certain directors and executive officers in the merger, each as more fully described The Offer Interests of Certain Persons in the Offer and the Merger. ;

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Regulatory Approvals. The MTGE special committee and the MTGE board of directors considered the period of time necessary to obtain the regulatory approvals that would be required to consummate the offer;

Cash Component of Consideration. The MTGE special committee and the MTGE board of directors considered that the holders of MTGE common stock who receive cash consideration, either because of an affirmative election or because of subsequent proration, will not be able to participate in the future benefits of the combined company and the fact that the receipt of cash will be a taxable transaction for U.S. federal income tax purposes; and

Other Risks of the Offer and the Merger. The MTGE special committee and the MTGE board of directors also considered the following additional risks:

the substantial costs to be incurred in connection with the transaction;

the absence of appraisal rights for holders of MTGE common stock under Maryland law and MTGE s charter; and

the risks described in the section captioned Risk Factors in the prospectus/offer to exchange.

Although the foregoing discussion sets forth the material factors considered by the MTGE special committee in making its recommendation to the MTGE board of directors and the MTGE board of directors in reaching its determination, it does not include all of the factors considered by either the MTGE special committee or the MTGE board of directors, and each director may have considered different factors or given different weights to different factors. In view of the variety of factors and the amount of information considered, neither the MTGE special committee nor the MTGE board of directors found it practicable to, and did not, make specific assessments of, quantify or otherwise assign relative weights to the specific factors considered in reaching its recommendation. Both the MTGE special committee and the MTGE board of directors realized that there can be no assurance about future results, including results expected or considered in the factors above. However, both the MTGE special committee and the MTGE board of directors concluded that the potential positive factors described above significantly outweighed the negative factors described above. The recommendations were made after consideration of all of the factors as a whole.

THE MTGE BOARD OF DIRECTORS, ACTING UPON THE UNANIMOUS RECOMMENDATION OF THE MTGE SPECIAL COMMITTEE, HAS DETERMINED THAT THE TERMS OF THE MERGER AGREEMENT AND THE TRANSACTION, INCLUDING THE OFFER, THE MERGER AND THE ISSUANCE OF SHARES OF ANNALY COMMON STOCK IN CONNECTION THEREWITH, WERE IN THE BEST INTERESTS OF MTGE AND ITS STOCKHOLDERS, DECLARED THE OFFER, THE MERGER AND THE OTHER TRANSACTIONS CONTEMPLATED BY THE MERGER AGREEMENT ADVISABLE, APPROVED THE EXECUTION AND DELIVERY BY MTGE OF THE MERGER AGREEMENT, THE PERFORMANCE BY MTGE OF ITS COVENANTS AND AGREEMENTS CONTAINED IN THE MERGER AGREEMENT AND THE CONSUMMATION OF THE OFFER, THE MERGER AND THE OTHER TRANSACTIONS CONTEMPLATED BY THE MERGER AGREEMENT ON THE TERMS AND SUBJECT TO THE CONDITIONS CONTAINED THEREIN, AND RECOMMENDS THAT MTGE STOCKHOLDERS ACCEPT THE OFFER AND TENDER THEIR SHARES OF MTGE COMMON STOCK TO ANNALY IN THE OFFER.

In considering the MTGE special committee s recommendation and the MTGE board of directors determination with respect to the offer and the merger, you should be aware that the MTGE external manager and certain executive officers of MTGE and the MTGE external manager have arrangements that cause them to have interests in the transaction that are different from, or are in addition to, the interests of MTGE stockholders generally The Offer Interests of Certain Persons in the Offer and the Merger.

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Opinion of the MTGE Special Committee s Financial Advisor

The MTGE special committee engaged Barclays to act as its financial advisor with respect to pursuing strategic alternatives for MTGE, including a possible sale of MTGE, pursuant to an engagement letter dated March 29, 2018. On May 2, 2018, Barclays rendered its oral opinion (which was subsequently confirmed in writing) to the MTGE special committee that, as of such date and based upon and subject to the qualifications, limitations and assumptions stated in its opinion, the aggregate consideration to be offered to the stockholders of MTGE in the proposed offer and merger is fair, from a financial point of view, to such stockholders.

The full text of Barclays written opinion, dated as of May 2, 2018, is attached as Annex B to this document. Barclays written opinion sets forth, among other things, the assumptions made, procedures followed, factors considered and limitations upon the review undertaken by Barclays in rendering its opinion. You are encouraged to read the opinion carefully in its entirety. The following is a summary of Barclays opinion and the methodology that Barclays used to render its opinion. This summary is qualified in its entirety by reference to the full text of the opinion.

Barclays opinion, the issuance of which was approved by Barclays Fairness Opinion Committee, is addressed to the MTGE special committee, addresses only the fairness, from a financial point of view, of the aggregate consideration to be offered to the stockholders of MTGE and does not constitute a recommendation to any stockholder of MTGE as to whether or not such stockholder should tender the shares of common stock pursuant to the offer or how such stockholder should act with respect to the transaction. The terms of the proposed transaction were determined through arm s-length negotiations between the MTGE special committee and Annaly and were approved by the MTGE board of directors (following the unanimous recommendation of the MTGE special committee). Barclays did not recommend any specific form of consideration to MTGE or that any specific form of consideration constituted the only appropriate consideration for the proposed transaction. Barclays was not requested to address, and its opinion does not in any manner address, MTGE s underlying business decision to proceed with or effect the proposed transaction, the likelihood of the consummation of the proposed transaction, or the relative merits of the proposed transaction as compared to any other transaction in which MTGE may engage. In addition, Barclays expressed no opinion on, and its opinion does not in any manner address, the fairness of the amount or the nature of any compensation paid to the MTGE external manager or to any officers, directors or employees of any parties to the proposed transaction, or any class of such persons, relative to the aggregate consideration to be offered to the stockholders of MTGE in the proposed transaction. No limitations were imposed by the MTGE special committee upon Barclays with respect to the investigations made or procedures followed by it in rendering its opinion.

In arriving at its opinion, Barclays, among other things:

- reviewed and analyzed a draft of the merger agreement, dated as of May 1, 2018, and the specific terms of the proposed transaction as set forth therein;

- reviewed and analyzed publicly available information concerning MTGE that Barclays believed to be relevant to its analysis, including MTGE s Annual Report on Form 10-K for the fiscal year ended December 31, 2017;

reviewed and analyzed publicly available information concerning Annaly that Barclays believed to be relevant to its analysis, including Annaly s Annual Report on Form 10-K for the fiscal year ended December 31, 2017;

reviewed and analyzed financial and operating information with respect to the business, operations and prospects of MTGE furnished to Barclays by MTGE, including financial projections of MTGE prepared by the MTGE external manager (the MTGE Projections);

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reviewed and analyzed financial and operating information with respect to the business, operations and prospects of Annaly furnished to Barclays by Annaly, including financial projections of Annaly prepared by Annaly Management Company LLC, the manager of Annaly (the Annaly Manager) (the Annaly Projections);

reviewed and analyzed a trading history of MTGE common stock from August 4, 2011 through May 1, 2018 and a trading history of Annaly common stock from August 4, 2011 to May 1, 2018, and a comparison of that trading history with those of other companies that Barclays deemed relevant;

reviewed and analyzed a comparison of the historical financial results and present financial condition of MTGE and Annaly with those of other companies that Barclays deemed relevant;

reviewed and analyzed published estimates of independent research analysts with respect to the future financial performance and net asset value of MTGE and Annaly and price targets of MTGE and Annaly;

reviewed and analyzed a comparison of the financial terms of the proposed transaction with the financial terms of certain other transactions that Barclays deemed relevant;

had discussions with the MTGE external manager and the Annaly Manager concerning Annaly s business, operations, assets, liabilities, financial condition and prospects;

had discussions with the MTGE external manager and the Annaly Manager concerning MTGE s business, operations, assets, liabilities, financial condition and prospects; and

has undertaken such other studies, analyses and investigations as Barclays deemed appropriate.

In arriving at its opinion, Barclays assumed and relied upon the accuracy and completeness of the financial and other information used by Barclays without any independent verification of such information (and had not assumed responsibility or liability for any independent verification of such information). Barclays also relied upon the assurances of each of the MTGE external manager and the Annaly Manager that they were not aware of any facts or circumstances that would make such information inaccurate or misleading. With respect to the MTGE Projections, upon the advice and at the direction of the MTGE special committee, Barclays has assumed that such projections, based on the assumptions stated therein, have been reasonably prepared and reflect the most reasonable currently available estimates and judgments of the MTGE external manager as to MTGE s future financial performance and that MTGE would perform substantially in accordance with such projections. With respect to the Annaly Projections, upon the advice and at the direction of the MTGE special committee, Barclays has assumed that such projections, based on the assumptions stated therein, have been reasonably prepared and reflect the most reasonable currently available estimates and judgments of the Annaly Manager as to Annaly s future financial performance and that Annaly would perform substantially in accordance with such projections. In arriving at its opinion, Barclays assumed no responsibility for and expressed no view as to any such projections or estimates or the assumptions on which they were based. In arriving at its opinion, Barclays did not conduct a physical inspection of the properties and facilities of MTGE or Annaly and did not make or obtain any evaluations or appraisals of the assets or liabilities of MTGE or

Annaly. Barclays opinion was necessarily based upon market, economic and other conditions as they existed on, and could be evaluated as of, May 2, 2018. Barclays assumed no responsibility for updating or revising its opinion based on events or circumstances that may have occurred after May 2, 2018. Barclays expressed no opinion as to the prices at which shares of MTGE common stock would trade following the announcement of the proposed transaction or shares of Annaly common stock would trade following the announcement or consummation of the proposed transaction. Barclays opinion should not be viewed as providing any assurance that the market value of the shares of Annaly common stock to be held by the stockholders of MTGE after the consummation of the proposed transaction will be in excess of the market value of MTGE common stock owned by such stockholders at any time prior to the announcement or consummation of the proposed transaction.

Barclays assumed that the executed merger agreement would conform in all material respects to the last draft reviewed by Barclays. Additionally, Barclays assumed the accuracy of the representations and warranties contained in the merger agreement and all the agreements related thereto. Barclays also assumed, upon the advice and at the direction of the MTGE special committee, that all material governmental, regulatory and third party approvals, consents and releases for the proposed transaction would be obtained within the constraints contemplated by the merger agreement and that the proposed transaction will be consummated in accordance with the terms of the merger agreement without waiver, modification or amendment of any material term, condition or agreement thereof. Barclays did not express any opinion as to any tax or other consequences that might result from the proposed transaction, nor did Barclays opinion address any legal, tax, regulatory or accounting matters, as to which Barclays understood MTGE had obtained such advice as it deemed necessary from qualified professionals.

In connection with rendering its opinion, Barclays performed certain financial, comparative and other analyses as summarized below. In arriving at its opinion, Barclays did not ascribe a specific range of values to the MTGE common stock but rather made its determination as to fairness, from a financial point of view, to MTGE s stockholders of the aggregate consideration to be offered to such stockholders in the proposed offer and merger on the basis of various financial and comparative analyses. The preparation of a fairness opinion is a complex process and involves various determinations as to the most appropriate and relevant methods of financial and comparative analyses and the application of those methods to the particular circumstances. Therefore, a fairness opinion is not readily susceptible to summary description.

In arriving at its opinion, Barclays did not attribute any particular weight to any single analysis or factor considered by it but rather made qualitative judgments as to the significance and relevance of each analysis and factor relative to all other analyses and factors performed and considered by it and in the context of the circumstances of the particular transaction. Accordingly, Barclays believes that its analyses must be considered as a whole, as considering any portion of such analyses and factors, without considering all analyses and factors as a whole, could create a misleading or incomplete view of the process underlying its opinion.

Summary of Material Financial Analyses

The following is a summary of the material financial analyses used by Barclays in preparing its opinion to the MTGE special committee. The summary of Barclays analyses and reviews provided below is not a complete description of the analyses and reviews underlying Barclays opinion. The preparation of a fairness opinion is a complex process involving various determinations as to the most appropriate and relevant methods of analysis and review and the application of those methods to particular circumstances, and, therefore, is not readily susceptible to summary description.

For the purposes of its analyses and review, Barclays made numerous assumptions with respect to industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of MTGE or any other parties to the proposed transaction. No company, business or transaction considered in Barclays analyses and review is identical to MTGE, Annaly, the Offeror or the proposed transaction, and an evaluation of the results of those analyses and reviews is not entirely mathematical. Rather, the analyses and reviews involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the acquisition, public trading or other values of the companies, businesses or transactions considered in Barclays analyses and reviews. None of MTGE, the Manager, Annaly, the Offeror, Barclays or any other person assumes responsibility if future results are materially different from those discussed. Any estimates contained in these analyses and reviews and the ranges of valuations resulting from any particular analysis or review are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than as set forth below. In addition, analyses relating to the value of companies, businesses or securities do not purport to be appraisals or reflect the prices at which the companies, businesses or securities may actually be sold. Accordingly, the estimates used in, and the results derived from, Barclays analyses and reviews are inherently subject to substantial uncertainty.

The summary of the financial analyses and reviews summarized below include information presented in tabular format. In order to fully understand the financial analyses and reviews used by Barclays, the tables must be read together with the text of each summary, as the tables alone do not constitute a complete description of the financial analyses and reviews. Considering the data in the tables below without considering the full description of the analyses and reviews, including the methodologies and assumptions underlying the analyses and reviews, could create a misleading or incomplete view of Barclays analyses and reviews.

Selected Comparable Company Analysis

In order to assess how the market values shares of similar publicly traded companies and to provide a range of relative implied equity values per share of MTGE and of Annaly, Barclays reviewed and compared specific financial and operating data relating to MTGE and Annaly, respectively, with selected companies that Barclays, based on its experience in the Mortgage REIT industry, deemed comparable to MTGE and Annaly, respectively. The selected comparable companies with respect to MTGE were:

Two Harbors Investment Corp.

Annaly Capital Management, Inc.

ARMOUR Residential REIT, Inc.

Invesco Mortgage Capital Inc.

The selected comparable companies with respect to Annaly were:

AGNC Investment Corp.

ARMOUR Residential REIT, Inc.

Capstead Mortgage Corporation

Barclays calculated and compared various financial multiples and ratios of MTGE and Annaly and the selected comparable companies. As part of its selected comparable company analysis, Barclays calculated and analyzed each applicable company s (i) price per share as of May 1, 2018 as a multiple of tangible book value per share as of December 31, 2017 (P/TBV 12/31) and as of March 31, 2018, (P/TBV 3/31), (ii) ratio of its current stock price to its calendar year 2018 estimated earnings per share (commonly referred to as a price earnings ratio, or P/E), based on each of (x) the MTGE Projections (Mgt[(1)] and (y) market data, with such median based upon research reports available to Barclays (Street) and (iii) implied dividend yield by annualizing the dividends paid in the most recent quarter.

The results of this selected comparable company analysis are summarized below:

MTGE Peers

	Low	Mean	Median	High
P / TBV[1]	0.88x	0.92x	0.92x	0.97x
P / 18E Earnings[2]	8.1x	8.9x	9.1x	9.3x
Dividend Yield	10.0%	11.1%	11.0%	12.3%

(1) Tangible book value based on latest tangible book value publically available
(2) 2018 Earnings based on Median analyst estimates available to Barclays through FactSet

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MTGE

	Metric	Selected Companies Range		Implied Share Price Range		
P/TBV 3/31	$ 19.61	0.85x	0.95x	$	16.67	$18.63
P/TBV 12/31	$ 20.62	0.85x	0.95x	$	17.53	$19.59
P/2018E (Mgt.)(1)	$ 2.29	8.5x	9.5x	$	19.47	$21.76
P/2018E (Street)	$ 1.98	8.5x	9.5x	$	16.83	$18.81
Annualized Dividend Yield	$ 2.00	12.0%	10.0%	$	16.67	$20.00

(1) Represents Net Spread, Dollar Roll and Healthcare Income, excluding catch up amortization.

Annaly Peers

	Low	Mean	Median	High
P / TBV(1)	0.87x	0.93x	0.92x	1.01x
P / 18E Earnings(2)	7.9x	10.6x	9.3x	14.5x
Dividend Yield	7.0%	9.5%	10.0%	11.4%

(1) Tangible book value based on latest tangible book value publically available

(2) 2018 Earnings based on Median analyst estimates available to Barclays through FactSet

Annaly

	Metric	Selected Companies Range		Implied Share Price Range		
P/TBV 3/31	$ 10.40	0.90x	1.00x	$	9.36	$10.40
P/2018E (Mgt.)	$ 1.18	8.0x	10.5x	$	9.47	$12.43
Annualized Dividend Yield	$ 1.20	11.5%	10.0%	$	10.43	$12.00

Barclays selected the comparable companies listed above because of similarities in one or more business or operating characteristics with MTGE or Annaly, as applicable. However, because no selected comparable company is exactly the same as MTGE or Annaly, as applicable, Barclays believed that it was inappropriate to, and therefore did not, rely solely on the quantitative results of the selected comparable company analysis. Accordingly, Barclays also made qualitative judgments concerning differences between the business, financial and operating characteristics and prospects of MTGE or Annaly, as applicable, and the selected comparable companies that could affect the public trading values of each in order to provide a context in which to consider the results of the quantitative analysis. These qualitative judgments related primarily to the differing sizes, growth prospects, profitability levels and degree of operational risk between MTGE or Annaly, as applicable, and the companies included in the selected company analysis.

Barclays noted that on the basis of the selected comparable company analysis, the transaction consideration of $19.65 per MTGE share was (i) above the range of implied values per share of $16.67 $18.63 derived from the P/TBV 3/31 calculation, (ii) above the range of implied values per share of $17.53 $19.59 derived from the P/TBV 12/31 calculation, (iii) within the range of implied values per share of $19.47 $21.76 derived from the P/2018E (Mgt.) calculation, (iv) above the range of implied values per share of $16.83 $18.81 derived from the P/2018E (Street) calculation and (v) within the range of implied values per share of $16.67 $20.00 derived from the annualized dividend yield calculation.

Barclays also noted that on the basis of the selected comparable company analysis, the transaction exchange ratio price of $10.32 per Annaly share was within the range of implied exchange ratios per share of (i) $9.36 $10.40 derived from the P/TBV 3/31 calculation and (ii) $9.47 $12.43 derived from the P/2018E (Mgt.)

calculation, and below the range of implied exchange ratios per share of (iii) $10.43 $12.00 derived from the annualized dividend yield calculation. The exchange ratio price of $10.32 is the price per share of Annaly shares which was used in the calculation of exchange ratios.

Selected Precedent Transactions Analysis

Barclays reviewed and compared the purchase prices and financial multiples paid in selected other transactions that Barclays, based on its experience with merger and acquisition transactions, deemed relevant. Barclays chose such transactions with a focus on U.S. target companies based on, among other things, the similarity of the applicable target companies in the transactions to MTGE with respect to the size, industry or business mix, margins, competitive dynamics and other characteristics of their businesses. Barclays reviewed the following transactions:

Date Announced	Acquiror	Target
April 26, 2018	Two Harbors Investment Corp.	CYS Investments, Inc.
April 11, 2016	Annaly Capital Management, Inc.	Hatteras Financial Corporation
April 7, 2016	Sutherland Asset Management Corp	ZAIS Financial Corp.
March 2, 2016	ARMOUR Residential REIT, Inc.	JAVELIN Mortgage Investment Corp.
February 26, 2016	Apollo Commercial Real Estate Finance, Inc.	Apollo Residential Mortgage

The reasons for and the circumstances surrounding each of the selected precedent transactions analyzed were diverse and there are inherent differences in the business, operations, financial conditions and prospects of MTGE and the companies included in the selected precedent transaction analysis. Although none of the selected transactions is directly comparable to the transaction, the target companies in the selected transactions were companies that, for purposes of analysis, may be considered similar to MTGE.

Accordingly, for the above selected transactions, based on information from SEC filings, SNL Financial and FactSet, Barclays calculated and reviewed the final announced transaction price as a multiple of the target company s last reported book value as of the time of announcement, which is referred to as Transaction P/BV . The following table sets forth the transactions analyzed based on such characteristics and the results of such analysis:

	Low	Mean	Median	High
Transaction P/BV	0.85x	0.92x	0.89x	1.05x

Barclays noted that on the basis of the selected precedent transaction analysis, the transaction consideration of $19.65 per share was within the range of implied values per share of $16.67 $20.60 calculated using March 31, 2018 tangible book value.

Dividend Discount Analysis of MTGE

Barclays performed a dividend discount analysis on MTGE using the MTGE Projections and certain publicly available information, which was used as a basis for discount rates and terminal value range. Barclays used two different methods to calculate annual discount rates that were then applied to the MTGE Projections and a range of terminal values estimated using a price to tangible book value ratio (P/TBV) methodology. In one method, Barclays calculated a range implied by the dividend yield of selected comparable companies, resulting in a selected discount range of 10.0% to 12.0%. Barclays then applied those discount rates to the projected quarterly dividends for MTGE from 2Q2018 through 4Q2020 (as set forth in MTGE Projections) and to an estimated terminal value (based on projected tangible book value in 4Q2020). Barclays calculated the net present value of the dividends and the net present value of the terminal value, which was based on applying the value range of 0.85x to 0.95 to quarter-11 tangible book value, and then divided by the number of fully diluted shares to get an implied value per share. This analysis assumed 100% of Net Spread, Dollar Roll and Healthcare

Income, excluding catch up amortization, is paid out through dividends to common shareholders of MTGE. This analysis resulted in a range of implied present values per share of MTGE common stock of $17.59 to $19.86. In the other method, Barclays calculated a discount range implied by the capital asset pricing model, resulting in a selected range of 8.0% to 9.5%. Barclays then applied those discount rates to the projected quarterly dividends for MTGE from 2Q2018 through 4Q2020 (as set forth in MTGE Projections) and to an estimated terminal value (based on projected tangible book value in 4Q2020). This analysis resulted in a range of implied present values per share of MTGE common stock of $18.55 to $20.75

Barclays noted that on the basis of the dividend discount analysis, the transaction consideration of $19.65 was within the range of implied values per share calculated using the MTGE Projections.

Dividend Discount Analysis of Annaly

Barclays performed a dividend discount analysis on Annaly using the Annaly Projections and certain publicly available information, which was used as a basis for discount rates and terminal value range. Additionally, based on diligence, a 2.0% decline in tangible book value per share was modeled over the forecast period. Barclays used two different methods to calculate annual discount rates that were then used in the subsequent dividend discount analysis and applied to the Annaly Projections and a range of terminal values estimated using a P/TBV methodology. In one method, Barclays calculated a discount range implied by the dividend yield of selected comparable companies, resulting in a selected range of 10.0% to 11.5%. Barclays then applied those discount rates to the Annaly Projections and calculated the net present value of the dividends and the net present value of the terminal value, which was based on applying the value range of 0.90x to 1.00x to quarter-6 tangible book value, and then divided by the number of fully diluted shares (1,160 million shares) to get an implied value per share. This analysis assumed 100% of core earnings (Ex. PAA) are paid out through dividends to common shareholders of Annaly. This analysis resulted in a range of implied present values per share of Annaly common stock of $9.37 to $10.43. In the other method, Barclays calculated a discount range implied by the capital asset pricing model, resulting in a selected range of 6.0% to 8.0%. Barclays then applied those discount rates to the Annaly Projections and an estimated terminal value (based on projected tangible book value in 4Q2020). This analysis resulted in a range of implied present values per share of Annaly common stock of $9.80 to $10.99

Barclays noted that on the basis of the dividend discount analysis, the transaction exchange ratio price of $10.32 was within the range of implied values per share calculated using the Annaly Projections.

Other Factors

Barclays also reviewed and considered other factors, which were not considered part of its financial analyses in connection with rendering its advice, but were references for informational purposes, including, among other things, the Historical Trading and the Analyst Target Prices, each described below.

Historical Trading

To illustrate the trend in the historical trading prices of the MTGE and Annaly shares, respectively, Barclays reviewed, for informational purposes, historical data with regard to the trading prices of such shares for the period from August 4, 2011 to May 1, 2018 and compared such data with the relative stock price performances during the same periods of the respective selected companies listed under the caption Selected Comparable Company Analysis above.

Barclays noted that during the period from May 1, 2017 to May 1, 2018, the price of the MTGE common stock ranged from $16.15 to $20.00 and that during the period from May 1, 2017 to May 1, 2018, the price of the Annaly common stock ranged from $10.00 to $12.73.

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Analyst Target Prices

Barclays reviewed, for informational purposes, as of May 1, 2018, the publicly available price targets of the MTGE and Annaly common stock published by equity research analysts associated with various Wall Street firms and available through FactSet and SNL Financial. The research analysts price target per share of MTGE common stock ranged from $19.00 $21.00 per share and the price target per share of Annaly common stock ranged from $10.00 $11.50 per share. The publicly available share price targets published by such equity research analysts do not necessarily reflect the current market trading price for MTGE or Annaly common stock and these estimates are subject to uncertainties, including future financial performance of MTGE and Annaly and future market conditions.

General

Barclays is an internationally recognized investment banking firm and, as part of its investment banking activities, is regularly engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, investments for passive and control purposes, negotiated underwritings, competitive bids, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes. The MTGE special committee selected Barclays because of its familiarity with MTGE and its qualifications, reputation and experience in the valuation of businesses and securities in connection with mergers and acquisitions generally, as well as substantial experience in transactions comparable to the proposed transaction.

Barclays is acting as financial advisor to the MTGE special committee in connection with the proposed transaction and will receive compensation for its services in connection with the proposed transaction, $500,000 of which became payable from MTGE to Barclays upon the delivery of Barclays opinion, which is referred to as the Opinion Fee . The Opinion Fee was not contingent upon the conclusion of Barclays opinion or the consummation of the proposed transaction. A retainer fee of $125,000 per month, which is referred to as the Retainer Fee also became payable to Barclays as of March 29, 2018 . The Retainer Fee may not exceed $500,000. Barclays will receive compensation of $7 million upon consummation of the offer against which the amounts paid pursuant to the Opinion Fee (but not the Retainer Fee) will be credited. In addition, MTGE has agreed to reimburse Barclays for a portion of its reasonable and documented out-of-pocket expenses incurred in connection with the proposed transaction and to indemnify Barclays for certain liabilities that may arise out of its engagement by MTGE and the rendering of Barclays opinion. Barclays has performed various investment banking services for MTGE and Annaly in the past, and is likely to perform such services in the future, and has received, and is likely to receive, customary fees for such services. Specifically, in the past two years, Barclays has not performed any investment banking and financial services for MTGE or Annaly for which it has earned investment banking fees.

Barclays, its subsidiaries and its affiliates engage in a wide range of businesses from investment and commercial banking, lending, asset management and other financial and non-financial services. In the ordinary course of its business, Barclays and its affiliates may actively trade and effect transactions in the equity, debt and/or other securities (and any derivatives thereof) and financial instruments (including loans and other obligations) of MTGE and Annaly for its own account and for the accounts of its customers and, accordingly, may at any time hold long or short positions and investments in such securities and financial instruments.

MTGE Unaudited Prospective Financial Information

MTGE does not publicly disclose projections as to future interest income, performance, earnings or other results due to, among other reasons, the uncertainty and subjectivity of the underlying assumptions and estimates as well as the high likelihood that actual results will vary from any such estimates. As a result, MTGE does not endorse the unaudited prospective financial information included in this document as a reliable indication of future results.

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At the request of the special committee s financial advisor, and on behalf of the special committee, the MTGE external manager prepared the MTGE limited unaudited prospective financial information (identified below). This limited unaudited prospective financial information is being included in this document solely because it was made available to the special committee and its financial advisor for use in connection with the financial advisor s analyses and opinion. The MTGE limited unaudited prospective financial information was also made available to Annaly and its financial advisors. While the limited unaudited prospective financial information presented below was reviewed by the special committee, such information was not reviewed or approved by the full MTGE board of directors. As such, the unaudited prospective financial information may vary from subsequent forecasts, financial plans, guidance and/or actual results due to a number of factors, including (but not limited to) changes in the MTGE investment portfolio and changes in interest rates, trading activity, market valuations, general market and economic conditions, capital commitments, other unexpected changes that cannot be predicted with any certainty, or at all, and the other factors described below. Although presented with numerical specificity, the limited unaudited prospective financial information reflects numerous assumptions and estimates as to future events made by the MTGE external manager.

Additionally, MTGE s future financial results may also materially differ from those expressed in the unaudited prospective financial information due to numerous factors that are beyond MTGE s, Annaly s or anyone else s ability to control or predict, including with respect to the interest rate environment, industry performance, competitive factors, industry consolidation, general business, economic, regulatory, market and financial conditions, as well as matters specific to MTGE s business, including with respect to MTGE s investment and capital allocation strategy and future business initiatives. The assumptions underlying the unaudited prospective financial information may not prove to have been, or may no longer be, accurate.

The MTGE external manager estimated the unaudited prospective financial information in the context of the business, economic, regulatory, market and financial conditions that existed at that time, and the unaudited prospective financial information has not been updated to reflect revised prospects for MTGE s business and investment portfolio, changes in general business, economic, regulatory, market and financial conditions, or any other transaction or event that has occurred or that may occur and that was not anticipated at the time such unaudited prospective financial information was prepared, including costs and expenses of the merger or other obligations or limitations on its business, operations, affairs or activities imposed by the merger agreement.

Specifically, the unaudited prospective financial information as of December 31, 2017, is based on the MTGE unaudited balance sheet and unaudited investment portfolio as of March 31, 2018 and does not take into account any circumstances or events occurring after April 1, 2018, and specifically does not include any financial or other consequences resulting from the May 2, 2018 announcement of the offer and the merger or subsequent integration planning activities to follow. Additionally, the unaudited prospective financial information does not give effect to any other changes that may result from the offer, the merger or the other transactions contemplated by the merger agreement or compliance with the terms of the merger agreement.

Moreover, the unaudited prospective financial information was based upon numerous assumptions, and the realization of any or all of these assumptions is uncertain. As such, stockholders are cautioned not to place undue, if any, reliance on the unaudited prospective financial information included in this document, including in making a decision as to whether to tender their shares of MTGE common stock in the offer. The following are among the assumptions used for preparing the unaudited prospective financial information:

- no material change in leverage;

fed funds rate projected increase of 50 basis points over the next four quarters;

no material change in agency mortgage backed securities and non-agency mortgage backed securities spreads;

no capital raises or repurchase or retirement of shares throughout the projection period;

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- no changes in common shares outstanding; and
- no changes in tangible book value over the forecast period.

Given the high degree of uncertainty of the aforementioned assumptions, actual results are likely to differ from the unaudited prospective financial information, and such differences may be material. Without limiting the generality of the foregoing, nothing in the unaudited prospective financial information reflects any change in or intention to change MTGE dividend payment practices, and the merger agreement imposes limitations on the payment of dividends.

THE UNAUDITED PROSPECTIVE FINANCIAL INFORMATION PRESENTED IN THIS DOCUMENT HAS NOT BEEN AND WILL NOT BE UPDATED SINCE THE DATE OF ITS PREPARATION TO REFLECT CIRCUMSTANCES EXISTING AT OR AFTER THE DATE OF ITS PREPARATION OR TO REFLECT THE OCCURRENCE OF FUTURE EVENTS AFTER MARCH 31, 2018, EVEN IN THE EVENT THAT ANY OR ALL OF THE ASSUMPTIONS UNDERLYING SUCH PROSPECTIVE FINANCIAL INFORMATION ARE NO LONGER APPROPRIATE, EXCEPT AS MAY BE REQUIRED BY LAW.

The inclusion of this information should not be regarded as an indication that MTGE, the MTGE external manager, the MTGE board of directors, Barclays, the Offeror, Annaly, the Annaly board of directors or any other recipient of this information considered, or now considers, it to be necessarily predictive of actual future results. There can be no assurance that the prospective results will be realized or that actual results will not be significantly higher or lower than estimated.

Since the unaudited prospective financial information included in this document covers multiple quarterly periods, such information by its nature becomes less predictive with each successive quarterly period. Holders of shares of MTGE common stock are urged to review the information under the caption Risk Factors and SEC filings of MTGE for a description of risk factors with respect to the business of MTGE. See Forward-Looking Statements, Risk Factors and Where to Obtain More Information.

The unaudited prospective financial information was not prepared with a view toward public disclosure, nor was it prepared with a view toward compliance with published guidelines of the SEC or the guidelines established by the American Institute of Certified Public Accountants for preparation and presentation of prospective financial information.

Ernst & Young LLP has not audited, reviewed, compiled or performed any procedures with respect to the accompanying unaudited prospective financial information for the purpose of its inclusion herein, and accordingly, Ernst & Young LLP does not express an opinion or provide any form of assurance on such information or its achievability, and assumes no responsibility for, and disclaims any association with, the unaudited prospective financial information. The Ernst & Young LLP report incorporated by reference into this document relates to MTGE s historical financial information. It does not extend to the prospective financial information of MTGE and should not be read to do so.

The inclusion of the unaudited prospective financial information below should not be deemed an admission or representation by MTGE, the MTGE external manager, the Offeror, Annaly, Barclays, or any of their affiliates with respect to such information or that such information is or was viewed by any such person as material information regarding MTGE, and in fact MTGE views such information as non-material because such information is based on preliminary assessments of future performance that are inconsistent with past experience, practice and results and involves inherent risks and uncertainties.

The unaudited prospective financial information is not being included in this document to influence your decision whether to tender your shares of MTGE common stock in the offer, but solely because such information was provided to Barclays and/or Annaly.

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The unaudited prospective financial information should be evaluated, if at all, only in conjunction with the historical financial statements and other information regarding MTGE contained in MTGE s public filings with the SEC. In light of the foregoing factors and the uncertainties inherent in the unaudited prospective financial information, stockholders are cautioned not to place undue, if any, reliance on the unaudited prospective financial information included in this document, including in making a decision as to whether to tender their shares of MTGE common stock in the offer.

MTGE Forecast

(in millions, except per share data)	Q2-2018	Q3-2018	Q4-2018	2019	2020
Net Spread, Dollar Roll and Healthcare Income, excluding catch up amortization	**$ 27**	**$ 26**	**$ 26**	**$ 106**	**$ 106**
Shares outstanding	46	46	46	46	46
Net Spread, Dollar Roll and Healthcare Income Per Common Share, excluding catch up amortization	**$ 0.58**	**$ 0.56**	**$ 0.57**	**$ 2.32**	**$ 2.32**

The following information was used for reference:

($ per share)	Q2-2018	Q3-2018	Q4-2018	2019	2020
Median Street Estimate(1)	*$ 0.50*	*$ 0.50*	*$ 0.50*	*$ 1.85*	

(1) EPS estimated based on median analyst estimates available to Barclays through FactSet.

Annaly Unaudited Prospective Financial Information

Annaly does not publicly disclose projections as to future interest income, performance, earnings or other results due to, among other reasons, the uncertainty and subjectivity of the underlying assumptions and estimates as well as the high likelihood that actual results will vary from any such estimates. As a result, Annaly does not endorse the unaudited prospective financial information included in this document as a reliable indication of future results.

Annaly is including the limited unaudited prospective financial information in this document solely because it was among the financial information made available to Barclays and the MTGE board of directors in connection with their evaluation of the offer and the merger. The limited unaudited prospective financial information presented below was not reviewed or approved by the Annaly board of directors, and is not the result of any formal internal review or process. As such, the unaudited prospective financial information may vary significantly from subsequent forecasts, financial plans, guidance and/or actual results due to a number of factors, including (but not limited to) changes in interest rates, trading activity, market valuations, general market and economic conditions, capital commitments, other unexpected changes that cannot be predicted with any certainty or at all, and the other factors described below. Although presented with numerical specificity, the limited unaudited prospective financial information reflects numerous assumptions and estimates as to future events made by the management of Annaly.

Additionally, Annaly s future financial results may also materially differ from those expressed in the unaudited prospective financial information due to numerous factors that are beyond Annaly s, the combined company s or anyone else s ability to control or predict, including with respect to the interest rate environment, industry performance, competitive factors, industry consolidation, general business, economic, regulatory, market and financial conditions, as well as matters specific to Annaly s business, including with respect to future business initiatives. The assumptions underlying the unaudited prospective financial information may not prove to have been, or may no longer be, accurate.

Annaly s management estimated the unaudited prospective financial information in the context of the business, economic, regulatory, market and financial conditions that existed at that time, and the unaudited prospective financial information has not been updated to reflect revised prospects for Annaly s business,

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changes in general business, economic, regulatory, market and financial conditions, or any other transaction or event that has occurred or that may occur and that was not anticipated at the time such unaudited prospective financial information was prepared.

Specifically, the unaudited prospective financial information does not take into account any circumstances or events occurring after April 19, 2018, the date it was prepared, and specifically does not include any financial consequences resulting from the May 2, 2018 announcement of the offer and the merger or subsequent integration planning activities to follow. Additionally, the unaudited prospective financial information does not give effect to any other changes that may result from the offer, the merger or the other transactions contemplated by the merger agreement.

Moreover, the unaudited prospective financial information was based upon several assumptions, and the realization of any or all of these assumptions is less than certain. As such, stockholders are cautioned not to place undue, if any, reliance on the unaudited prospective financial information included in this document, including in making a decision as to whether to tender their shares of MTGE common stock in the offer. The following are among the assumptions used for preparing the unaudited prospective financial information:

- static interest rates through the prospective periods with no change in overall level of interest rates or shape of the yield curve;
- no material changes in overall size of portfolio assets;
- no material changes in leverage;
- no material changes in portfolio net interest margins or net interest spreads; and
- no material changes in hedge ratio or net duration measures.

Given the relatively static nature of the aforementioned assumptions, actual results are likely to differ from the unaudited prospective financial information, and such differences may be material.

THE UNAUDITED PROSPECTIVE FINANCIAL INFORMATION PRESENTED IN THIS DOCUMENT HAS NOT BEEN AND WILL NOT BE UPDATED SINCE THE DATE OF ITS PREPARATION TO REFLECT CIRCUMSTANCES EXISTING AFTER THE DATE OF ITS PREPARATION OR TO REFLECT THE OCCURRENCE OF FUTURE EVENTS, EVEN IN THE EVENT THAT ANY OR ALL OF THE ASSUMPTIONS UNDERLYING SUCH PROSPECTIVE FINANCIAL INFORMATION ARE NO LONGER APPROPRIATE, EXCEPT AS MAY BE REQUIRED BY LAW.

The inclusion of this information should not be regarded as an indication that the Offeror, Annaly, its board of directors, Barclays, MTGE, its board of directors or any other recipient of this information considered, or now considers, it to be necessarily predictive of actual future results. There can be no assurance that the prospective results will be realized or that actual results will not be significantly higher or lower than estimated.

Since the unaudited prospective financial information included in this document covers multiple quarterly periods, such information by its nature becomes less predictive with each successive quarterly period. Holders of shares of MTGE common stock are urged to review the section of this document titled Risk Factors and SEC filings of Annaly for a description of risk factors with respect to the business of Annaly. See Forward-Looking Statements, Risk Factors and Where to Obtain More Information .

The unaudited prospective financial information was not prepared with a view toward public disclosure, nor was it prepared with a view toward compliance with published guidelines of the SEC or the guidelines established by the American Institute of Certified Public Accountants for preparation and presentation of prospective financial information.

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Ernst & Young LLP has not audited, reviewed, compiled or performed any procedures with respect to the accompanying unaudited prospective financial information (or unaudited prospective financial information presented under the heading MTGE Unaudited Prospective Financial Information) for the purpose of its inclusion herein, and accordingly, Ernst & Young LLP does not express an opinion or provide any form of assurance on such information or its achievability, and assumes no responsibility for, and disclaims any association with, the unaudited prospective financial information. The Ernst & Young LLP report incorporated by reference into this document relates to Annaly s historical financial information. It does not extend to the prospective financial information of Annaly and should not be read to do so.

The inclusion of the unaudited prospective financial information below should not be deemed an admission or representation by Annaly, the Offeror, MTGE, Barclays, or any of their affiliates with respect to such information or that such information is or was viewed by any such person as material information regarding Annaly, and in fact Annaly views such information as non-material because such information is based on preliminary assessments of future performance and involves inherent risks and uncertainties.

The unaudited prospective financial information is not being included in this document to influence your decision whether to tender your shares of MTGE common stock in the offer, but because such information was provided to MTGE s board of directors and MTGE s financial advisor.

The unaudited prospective financial information should be evaluated, if at all, in conjunction with the historical financial statements and other information regarding Annaly contained in Annaly s public filings with the SEC. In light of the foregoing factors and the uncertainties inherent in the unaudited prospective financial information, stockholders are cautioned not to place undue, if any, reliance on the unaudited prospective financial information included in this document, including in making a decision as to whether to tender their shares of MTGE common stock in the offer.

The following table presents the limited unaudited prospective financial data with respect to Annaly that were made available to Barclays and MTGE in connection with their evaluation of the offer and the merger:

	For the quarter ending					
(*$ in 000s*)	**June 30, 2018**	**September 30, 2018**	**December 31, 2018**	**March 31, 2019**	**June 30, 2019**	**September 30, 2019**
Interest Income	$ 800,616	$ 817,063	$ 825,171	$ 833,144	$ 843,156	$ 853,468
Core Earnings (ex. PAA) (1)	$ 346,670	$ 341,767	$ 336,924	$ 329,033	$ 328,827	$ 330,225

(1) Core earnings is a non-GAAP measure and is defined as net income (loss) excluding gains or losses on disposals of investments and termination or maturity of interest rate swaps, unrealized gains or losses on interest rate swaps and investments measured at fair value through earnings, net gains and losses on trading assets, impairment losses, net income (loss) attributable to noncontrolling interest, transaction expenses and certain other non-recurring gains or losses, and inclusive of TBA dollar roll income (a component of Net gains (losses) on trading assets) and realized amortization of MSRs (a component of net unrealized gains (losses) on investments measured at fair value through earnings). Core earnings (excluding PAA) excludes the premium amortization adjustment representing the cumulative impact on prior periods, but not the current period, of quarter-over-quarter changes in estimated long-term prepayment speeds related to Annaly s Agency mortgage-backed securities.

Elections and Proration

MTGE common stockholders electing the mixed consideration will not be subject to proration; however, holders electing the all-cash consideration or the all-stock consideration may receive a different form of consideration than selected. MTGE common stockholders who make the all-cash election or the all-stock election will be subject to proration so that approximately 50.0% of the aggregate consideration in the offer will be paid in cash and approximately 50.0% of the aggregate consideration in the offer will be paid in shares of

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Annaly common stock. MTGE common stockholders who validly tender and do not validly withdraw their shares of MTGE common stock in the offer but who do not make a valid election will receive the mixed consideration for their shares of MTGE common stock. See Consequences of Tendering with No Election for more information.

The number of shares of MTGE common stock eligible to receive the all-cash consideration in the offer will be equal to 50.0% multiplied by the sum of the total number of shares making an all-cash election in the offer and the total number of shares making an all-stock election in the offer (such product is referred to as the maximum all-cash shares in offer).

The number of shares of MTGE common stock eligible to receive the all-stock consideration in the offer will be equal to 50.0% multiplied by the sum of the total number of shares making an all-cash election in the offer and the total number of shares making an all-stock election in the offer (such product is referred to as the maximum all-stock shares in offer).

Over-Election of Cash

If the aggregate number of shares attributable to holders of MTGE common stock making an all-cash election in the offer is greater than the maximum all-cash shares in offer, such shares will be subject to proration. To determine the amount of proration, an offer cash proration factor will apply. The offer cash proration factor will be equal to:

the maximum all-cash shares in offer

divided by

the aggregate number of shares of MTGE common stock for which an all-cash election in the offer has been made.

Proration will be calculated so that for each MTGE common stockholder making an all-cash election, the number of shares of MTGE common stock entitled to the all-cash consideration will be equal to the number of shares of MTGE common stock for which such stockholder has made an all-cash election, multiplied by the offer cash proration factor (as calculated above), rounded down to the nearest share. The shares of MTGE common stock that do not receive the all-cash consideration as a result of such proration will instead receive the all-stock consideration.

If following proration a MTGE common stockholder would be entitled to receive a fractional share of Annaly common stock, such stockholder will instead receive an amount in cash (without interest) equal to the amount of such fraction multiplied by the volume weighted average closing sale price per share of Annaly common stock as reported on the NYSE for the 10 consecutive trading days ending on the trading day immediately preceding the acceptance time.

Over-Election of Cash Example

For purposes of this example, assume the following:

there are 100,000,000 outstanding shares of MTGE common stock;

MTGE stockholders make a mixed election with respect to 50,000,000 (or 50%) shares of MTGE common stock;

MTGE stockholders make the all-cash election with respect to 30,000,000 (or 30%) shares of MTGE common stock;

MTGE stockholders make the all-stock election with respect to 20,000,000 (or 20%) shares of MTGE common stock; and

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The 10-day volume weighted average closing sale price per share of Annaly common stock as reported on the NYSE for the 10 consecutive trading days ending on the trading day immediately preceding the acceptance time is $10.41 per share.

In this example, without proration, there would be an over-election of cash because the number of shares of MTGE common stock making the all-cash election is 30,000,000, which is greater than 25,000,000, which is the maximum all-cash shares in offer (calculated as follows: 0.50 × (30,000,000 + 20,000,000)). To adjust for the over-election, the number of shares of MTGE common stock making the all-cash election will be multiplied by the offer cash proration factor of 0.8333, with the resulting number of shares rounded down to the nearest share. The offer cash proration factor is calculated by dividing 25,000,000 (which is the maximum all-cash shares in offer) by 30,000,000 (which is the aggregate number of shares of MTGE common stock making an all-cash election in the offer).

In this example, a MTGE stockholder who makes an all-cash election for 100 shares of MTGE common stock would be entitled to receive the all-cash consideration for 83 of those shares (calculated as follows: 100 shares × 0.8333 offer cash proration factor, rounded down to the nearest share), and the all-stock consideration for the remaining 17 of those shares. This equates to $1,630.95 in cash (calculated as follows: 83 shares × $19.65 all-cash consideration per share) plus 32.3629 shares of Annaly common stock (calculated as follows: 17 shares × 1.9037 shares of Annaly common stock, the all-stock consideration per share). Because fractional shares of Annaly common stock will be converted to cash, the number of actual shares of Annaly common stock such holder would be entitled to receive would be 32, with the additional 0.3629 shares of Annaly common stock converted into $3.77 in cash (calculated as follows: 0.3629 × $10.41).

See Risk Factors Risk Factors Relating to the Offer and the Merger MTGE common stockholders may not receive all consideration in the form elected.

Over-Election of Stock

If the aggregate number of shares attributable to holders of MTGE common stock making an all-stock election in the offer is greater than the maximum all-stock shares in offer, such shares will be subject to proration. To determine the amount of proration, an offer stock proration factor will apply. The offer stock proration factor will be equal to:

the maximum all-stock shares in offer

divided by

the aggregate number of shares of MTGE common stock for which an all-stock election in the offer has been made.

Proration will be calculated so that for each MTGE common stockholder making an all-stock election, the number of shares of MTGE common stock entitled to the all-stock consideration will be equal to the number of shares of MTGE common stock for which such stockholder has made an all-stock election, multiplied by the offer stock proration factor (as calculated above), rounded down to the nearest share. The shares of MTGE common stock that do not receive the all-stock consideration as a result of proration will instead receive the all-cash consideration.

If following proration a MTGE common stockholder would be entitled to receive a fractional share of Annaly common stock, such stockholder will instead receive an amount in cash (without interest) equal to the amount of such fraction multiplied by the volume weighted average closing sale price per share of Annaly common stock as reported on the NYSE for the 10 consecutive trading days ending on the trading day immediately preceding the acceptance time.

Over-Election of Stock Example

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For purposes of this example, assume the following:

- there are 100,000,000 outstanding shares of MTGE common stock;
- MTGE stockholders make the mixed election with respect to 20,000,000 (or 20%) shares of MTGE common stock;
- MTGE stockholders make the all-cash election with respect to 10,000,000 (or 10%) shares of MTGE common stock;
- MTGE stockholders make the all-stock election with respect to 70,000,000 (or 70%) shares of MTGE common stock; and
- The 10-day volume weighted average closing sale price per share of Annaly common stock as reported on the NYSE for the 10 consecutive trading days ending on trading day immediately preceding the acceptance time is \$10.41 per share.

In this example, without proration, there would be an over-election of stock because the number of shares of MTGE common stock making the all-stock election is 70,000,000, which is greater than 40,000,000, which is the maximum all-stock shares in offer (calculated as follows: 0.5 × (10,000,000 + 70,000,000)). To adjust for the over-election, the number of shares of MTGE common stock making the all-stock election will be multiplied by the offer stock proration factor of 0.5714, with the resulting number of shares rounded down to the nearest share. The offer stock proration factor is calculated by dividing 40,000,000 (which is the maximum all-stock shares in offer) by 70,000,000 (which is the aggregate number of shares of MTGE common stock making an all-stock election in the offer).

In this example, a MTGE stockholder who makes an all-stock election for 100 shares of MTGE common stock would be entitled to receive the all-stock consideration for 57 of those shares (calculated as follows: 100 shares × 0.5714 offer stock proration factor, rounded down to the nearest share), and the all-cash consideration for the remaining 43 of those shares. This equates to \$844.95 in cash (calculated as follows: 43 shares × \$19.65 all-cash consideration per share) plus 108.5109 shares of Annaly common stock (calculated as follows: 57 shares × 1.9037 shares of Annaly common stock, the all-stock consideration per share). Because fractional shares of Annaly common stock will be converted to cash, the number of actual shares of Annaly common stock such holder would be entitled to receive would be 108, with the additional 0.5109 shares converted into \$5.31 in cash (calculated as follows: 0.5109 × \$10.41).

See Risk Factors Risk Factors Relating to the Offer and Merger MTGE common stockholders may not receive all consideration in the form elected.

Consequences of Tendering with No Election

MTGE common stockholders who validly tender and do not validly withdraw their shares of MTGE common stock in the offer that do not make an election will be deemed to have elected to receive the mixed consideration.

Distribution of Offering Materials

This document, the related letter of election and transmittal and other relevant materials will be delivered to record holders of shares of MTGE common stock and to brokers, dealers, commercial banks, trust companies and similar persons whose names, or the names of whose nominees, appear on MTGE s stockholder list or, if applicable, who are listed as participants in a clearing agency s security position listing, so that they can in turn send these materials to beneficial owners of shares of MTGE common stock.

Expiration of the Offer

The offer is scheduled to expire at 5:00 p.m., Eastern Time, on June 18, 2018, unless further extended or terminated. Expiration date means 5:00 p.m., Eastern Time, on June 18, 2018, unless and until the Offeror has extended or terminated the period during which the offer is open, subject to the terms and conditions of the merger agreement, in which event the term expiration date means the latest time and date at which the offer, as so extended by the Offeror, will expire.

Extension, Termination and Amendment

Subject to the provisions of the merger agreement and the applicable rules and regulations of the Securities and Exchange Commission (SEC), and unless MTGE consents otherwise or the merger agreement is otherwise terminated, the Offeror must (1) extend the offer for one or more successive periods of up to 10 business days each (or for such longer period as may be agreed by MTGE) in order to further seek to satisfy the conditions to the offer in the event that any of the offer conditions (other than the minimum tender condition) have not been satisfied or validly waived as of any then scheduled expiration of the offer, (2) extend the offer for up to two successive periods of 10 business days each (or such longer or shorter period as may be agreed by MTGE) if each of the offer conditions (other than the minimum tender condition) has been satisfied or validly waived and the minimum tender condition has not been satisfied as of the scheduled expiration of the offer, and (3) extend the offer for the minimum period required by any rule, regulation, interpretation or position of the SEC or its staff or NYSE or Nasdaq that is applicable to the offer or the merger or to the extent necessary to resolve any comments of the SEC or its staff applicable to the offer, the merger, the Schedule TO or the related offer documents. However, the Offeror is not required to extend the offer beyond the outside date.

The merger agreement prohibits the Offeror and Annaly from making certain changes to the offer or waiving certain conditions to the offer without the express written consent of MTGE. Changes to the offer that require the express written consent of MTGE include changes (i) to the terms or conditions to the offer that change the form of consideration to be paid in the offer, (ii) that decrease the amount of consideration in the offer or the number of shares sought in the offer, (iii) that extend the offer (other than extensions required by law or SEC or NYSE or Nasdaq regulation, extensions (x) of up to 10 business days each (or such longer period as may be agreed by MTGE) if either any of the conditions to the offer (other than the minimum tender condition) have not been satisfied or validly waived as of the then-scheduled expiration date in order to seek the satisfaction of such conditions, (y) of 10 business days each (or such longer or shorter period as may be agreed by MTGE) if all of the conditions (other than the minimum tender condition) have been satisfied or validly waived as of the then-scheduled expiration date in order to seek the satisfaction of the minimum tender condition, or (z) for any period necessary to meet the notice requirements for a short form merger pursuant to Section 3-106.1(e)(1) of the MGCL), (iv) that impose conditions in the offer not included in the merger agreement, or (v) that amend or modify any other terms or conditions of the offer in any manner that is adverse or would reasonably be expected to be adverse to MTGE common stockholders in their capacities as such. Conditions to the offer that the Offeror and Annaly may not waive without the express written consent of MTGE include (i) the minimum tender condition, (ii) effectiveness of the registration statement on Form S-4 of which this document is a part, (iii) there not having occurred a material adverse effect (with such term as defined in the merger agreement and described under Merger Agreement Material Adverse Effect) with respect to Annaly and its subsidiaries, (iv) the accuracy of Annaly s and the Offeror s representations and warranties, (v) Annaly and the Offeror s compliance with covenants under the merger agreement, (vi) the approval for listing on the NYSE of the shares of Annaly common stock to be issued in the offer and the merger and Series H preferred stock to be issued in the merger, (vii) lack of legal prohibitions, (viii) the receipt of an opinion by MTGE from its legal counsel to the effect that the offer and the merger, taken together, will qualify as a reorganization within the meaning of Section 368(a) of the Code, and (ix) the receipt of a written opinion by MTGE from Annaly s legal counsel to the effect that since a specified date Annaly has and through the expiration date meets the requirements for REIT qualification under the Code, and that the proposed method of operation of Annaly will enable Annaly to continue to meet the requirements for qualification as a REIT under the Code.

The Offeror will effect any extension, termination, amendment or delay by giving oral or written notice to the exchange agent and by making a public announcement as promptly as practicable thereafter. In the case of an extension, any such announcement will be issued no later than 9:00 a.m., Eastern Time, on the next business day following the previously scheduled expiration date. Subject to applicable law (including Rules 14d-4(c) and 14d-6(d) under the Exchange Act, which require that any material change in the information published, sent or given to stockholders in connection with the offer be promptly disseminated to stockholders in a manner reasonably designed to inform them of such change) and without limiting the manner in which the Offeror may choose to make any public announcement, the Offeror assumes no obligation to publish, advertise or otherwise communicate any such public announcement of this type other than by issuing a press release.

If the Offeror materially changes the terms of the offer or the information concerning the offer, or if the Offeror waives a material condition of the offer, the Offeror will extend the offer to the extent legally required under the Exchange Act. If, prior to the expiration date, the Offeror changes the percentage of shares being sought or the consideration offered, that change will apply to all MTGE common stockholders whose shares are accepted for exchange pursuant to the offer. If, at the time notice of that change is first published, sent or given to MTGE common stockholders, the offer is scheduled to expire at any time earlier than the 10th business day from and including the date that such notice is first so published, sent or given, the Offeror will extend the offer until the expiration of that 10 business day period. For purposes of the offer, a business day means any day other than a Saturday, Sunday or federal holiday and consists of the time period from 12:01 a.m. through 12:00 midnight, Eastern Time.

No subsequent offering period will be available following the expiration of the offer.

Exchange of Shares; Delivery of Cash and Annaly Shares

Annaly has retained Computershare as the depositary and exchange agent for the offer and the merger (the exchange agent) to handle the exchange of shares for the common transaction consideration in each of the offer and the merger. In addition, the exchange agent will handle the exchange of shares of MTGE Series A preferred stock for the shares of Annaly Series H preferred stock.

Upon the terms and subject to the satisfaction or waiver of the conditions of the offer (including, if the offer is extended or amended, the terms and conditions of any such extension or amendment), the Offeror will accept for exchange, and will exchange, shares validly tendered and not validly withdrawn promptly after the expiration date. In all cases, a MTGE stockholder will receive consideration for tendered shares of MTGE common stock only after timely receipt by the exchange agent of certificates for those shares, or a confirmation of a book-entry transfer of those shares into the exchange agent s account at The Depository Trust Company (DTC), a properly completed and duly executed letter of election and transmittal, or an agent s message in connection with a book-entry transfer, and any other required documents.

For purposes of the offer, the Offeror will be deemed to have accepted for exchange shares validly tendered and not validly withdrawn if and when it notifies the exchange agent of its acceptance of those shares pursuant to the offer. The exchange agent will deliver to the applicable MTGE common stockholders any cash and shares of Annaly common stock issuable in exchange for shares validly tendered and accepted pursuant to the offer promptly after receipt of such notice. The exchange agent will act as the agent for tendering MTGE common stockholders for the purpose of receiving cash and shares of Annaly common stock from the Offeror and transmitting such cash and stock to the tendering MTGE common stockholders. MTGE common stockholders will not receive any interest on any cash that the Offeror pays in the offer, even if there is a delay in making the exchange.

If the Offeror does not accept any tendered shares of MTGE common stock for exchange pursuant to the terms and conditions of the offer for any reason, or if certificates are submitted representing more shares than are tendered for, the Offeror will return certificates for such unexchanged shares without expense to the tendering stockholder or, in the case of shares tendered by book-entry transfer into the exchange agent s account at DTC pursuant to the procedures set forth below in Procedure for Tendering, the shares to be returned will be credited to an account maintained with DTC as soon as practicable following expiration or termination of the offer.

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Withdrawal Rights

MTGE common stockholders can withdraw tendered shares of MTGE common stock at any time until the expiration date and, if the Offeror has not agreed to accept the shares for exchange on or prior to July 15, 2018, MTGE common stockholders can thereafter withdraw their shares from tender at any time after such date until the Offeror accepts shares for exchange.

For the withdrawal of shares to be effective, the exchange agent must receive a written notice of withdrawal from the MTGE stockholder at one of its addresses set forth elsewhere in this document, prior to the expiration date. The notice must include the MTGE stockholder s name, address, social security number, the certificate number(s), the number of shares to be withdrawn and the name of the registered holder, if it is different from that of the person who tendered those shares, and any other information required pursuant to the offer or the procedures of DTC, if applicable.

A financial institution must guarantee all signatures on the notice of withdrawal, unless the shares to be withdrawn were tendered for the account of an eligible institution. Most banks, savings and loan associations and brokerage houses are able to provide signature guarantees. An eligible institution is a financial institution that is a participant in the Securities Transfer Agents Medallion Program.

If shares have been tendered pursuant to the procedures for book-entry transfer discussed under the section entitled Procedure for Tendering, any notice of withdrawal must specify the name and number of the account at DTC to be credited with the withdrawn shares and must otherwise comply with DTC s procedures. If certificates have been delivered or otherwise identified to the exchange agent, the name of the registered holder and the serial numbers of the particular certificates representing the shares withdrawn must also be furnished to the exchange agent, as stated above, prior to the physical release of such certificates.

The Offeror will decide all questions as to the form and validity (including time of receipt) of any notice of withdrawal in its sole discretion, and its decision will be final and binding to the fullest extent permitted by law, subject to the rights of holders of shares of MTGE common stock to challenge such decision in a court of competent jurisdiction. None of the Offeror, Annaly, MTGE, the exchange agent, the information agent or any other person is under any duty to give notification of any defects or irregularities in any tender or notice of withdrawal or will incur any liability for failure to give any such notification. Any shares validly withdrawn will be deemed not to have been validly tendered for purposes of the offer. However, a MTGE stockholder may re-tender withdrawn shares by following the applicable procedures discussed under the section Procedure for Tendering at any time prior to the expiration date.

Procedure for Tendering

For a MTGE common stockholder to validly tender shares of MTGE common stock held of record pursuant to the offer, a MTGE common stockholder must:

- if such shares are in certificated form, deliver to the exchange agent a properly completed and duly executed letter of election and transmittal, along with any required signature guarantees and any other documents required by the letter of election and transmittal, and certificates for tendered shares of MTGE common stock held in certificate form, at one of its addresses set forth elsewhere in this document before the expiration date; or if such shares are in electronic book-entry form, deliver an agent s message in connection with a book-entry transfer, and any other required documents, to the exchange agent at its address set forth elsewhere in this document and follow the other procedures for book-entry tender set forth herein, all of which must be received by the exchange agent prior to the expiration date.

If shares of MTGE common stock are held in street name (*i.e.*, through a broker, dealer, commercial bank, trust company or other nominee), those shares may be tendered by the nominee holding such shares by book-entry transfer through DTC. To validly tender such shares held in street name, MTGE common stockholders should instruct such nominee to do so prior to the expiration date.

The term agent s message means a message transmitted by DTC to, and received by, the exchange agent and forming a part of a book-entry confirmation, which states that DTC has received an express acknowledgment from the DTC participant tendering the shares that are the subject of such book-entry confirmation, that such participant has received and agrees to be bound by the terms of the letter of election and transmittal and that the Offeror may enforce that agreement against such participant.

The exchange agent has established an account with respect to the shares at DTC in connection with the offer, and any financial institution that is a participant in DTC may make book-entry delivery of shares by causing DTC to transfer such shares prior to the expiration date into the exchange agent s account in accordance with DTC s procedure for such transfer. However, although delivery of shares may be effected through book-entry transfer at DTC, the letter of election and transmittal with any required signature guarantees, or an agent s message, along with any other required documents, must, in any case, be received by the exchange agent at one of its addresses set forth on the back cover of this document prior to the expiration date. The Offeror cannot assure MTGE common stockholders that book-entry delivery of shares will be available. If book-entry delivery is not available, MTGE common stockholders must tender shares by means of delivery of MTGE share certificates. **We are not providing for guaranteed delivery procedures and, therefore, you must allow sufficient time for the necessary tender procedures to be completed during normal business hours of DTC prior to the expiration date.** Tenders received by the exchange agent after the expiration date will be disregarded and of no effect.

Signatures on all letters of election and transmittal must be guaranteed by an eligible institution, except in cases in which shares are tendered either by a registered holder of shares who has not completed the box entitled Special Issuance Instructions or the box entitled Special Delivery Instructions on the letter of election and transmittal or for the account of an eligible institution.

If the certificates for shares are registered in the name of a person other than the person who signs the letter of election and transmittal, or if certificates for unexchanged shares are to be issued to a person other than the registered holder(s), the certificates must be endorsed or accompanied by appropriate stock powers, in either case signed exactly as the name or names of the registered owner or owners appear on the certificates, with the signature(s) on the certificates or stock powers guaranteed by an eligible institution.

The method of delivery of MTGE share certificates and all other required documents, including delivery through DTC, is at the option and risk of the tendering MTGE stockholder, and delivery will be deemed made only when actually received by the exchange agent. If delivery is by mail, the Offeror recommends registered mail with return receipt requested and properly insured. In all cases, MTGE stockholders should allow sufficient time to ensure timely delivery.

To prevent U.S. federal backup withholding with respect to any cash payments, each MTGE stockholder that is a United States person (as defined in the Code), other than a stockholder exempt from backup withholding who otherwise establishes its exemption from U.S. federal backup withholding, must provide the exchange agent with its correct taxpayer identification number and certify that it is not subject to backup withholding of U.S. federal income tax by completing the Internal Revenue Service (IRS) Form W-9 included in the letter of election and transmittal. Certain stockholders (including, among others, certain foreign persons) are not subject to these backup withholding requirements. In order for a MTGE stockholder that is a foreign person to qualify as an exempt recipient for purposes of U.S. federal backup withholding, the stockholder must submit an IRS Form W-8BEN or IRS Form W-8BEN-E, as applicable, or other applicable IRS Form W-8, signed under penalties of perjury, attesting to such person s exempt status. In addition, MTGE stockholders that are foreign persons may be subject to U.S. federal withholding tax at a rate of 30% (or such lower rate as may be specified by an applicable income tax treaty) with respect to cash received pursuant to the offer and/or the merger. See the discussion under Material U.S. Federal Income Tax Consequences.

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The tender of shares pursuant to any of the procedures described above will constitute a binding agreement between the Offeror and the tendering MTGE stockholder upon the terms and subject to the satisfaction or waiver of the conditions of the offer (including, if the offer is extended or amended, the terms and conditions of any such extension or amendment).

No Guaranteed Delivery

We are not providing for guaranteed delivery procedures and, therefore, MTGE common stockholders must allow sufficient time for the necessary tender procedures to be completed during normal business hours of DTC prior to the expiration date. MTGE common stockholders must tender their shares of MTGE common stock in accordance with the procedures set forth in this document. In all cases, the Offeror will exchange shares tendered and accepted for exchange pursuant to the offer only after timely receipt by the exchange agent of certificates for shares (or timely confirmation of a book-entry transfer of such shares into the exchange agent s account at DTC as described above), a properly completed and duly executed letter of election and transmittal (or an agent s message in connection with a book-entry transfer) and any other required documents.

Grant of Proxy

By executing a letter of election and transmittal as set forth above, a MTGE stockholder irrevocably appoints the Offeror s designees as such MTGE stockholder s attorneys-in-fact and proxies, each with full power of substitution, to the full extent of such stockholder s rights with respect to its shares tendered and accepted for exchange by the Offeror and with respect to any and all other shares and other securities issued or issuable in respect of those shares on or after the expiration date. That appointment is effective, and voting rights will be affected, when and only to the extent that the Offeror accepts tendered shares of MTGE common stock for exchange pursuant to the offer and deposits with the exchange agent the cash consideration or the shares of Annaly common stock consideration for such shares. All such proxies will be considered coupled with an interest in the tendered shares of MTGE common stock and therefore will not be revocable. Upon the effectiveness of such appointment, all prior proxies that the MTGE stockholder has given will be revoked, and such stockholder may not give any subsequent proxies (and, if given, they will not be deemed effective). The Offeror s designees will, with respect to the shares for which the appointment is effective, be empowered, among other things, to exercise all of such stockholder s voting and other rights as they, in their sole discretion, deem proper at any annual, special or adjourned meeting of the MTGE s stockholders or otherwise.

The Offeror reserves the right to require that, in order for shares to be deemed validly tendered, immediately upon the exchange of such shares, the Offeror must be able to exercise full voting rights with respect to such shares. **However, prior to acceptance for exchange by the Offeror in accordance with terms of the offer, the appointment will not be effective, and the Offeror will have no voting rights as a result of the tender of shares.**

Fees and Commissions

Tendering registered MTGE stockholders who tender shares directly to the exchange agent will not be obligated to pay any charges or expenses of the exchange agent or any brokerage commissions. Tendering MTGE stockholders who hold MTGE shares through a broker or bank should consult that institution as to whether or not such institution will charge the stockholder any service fees in connection with tendering shares pursuant to the offer. Except as set forth in the instructions to the letter of election and transmittal, transfer taxes on the exchange of shares pursuant to the offer will be paid by the Offeror.

Matters Concerning Validity and Eligibility

The Offeror will determine questions as to the validity, form, eligibility (including time of receipt) and acceptance for exchange of any tender of shares, in its sole discretion, and its determination will be final and binding to the fullest extent permitted by law, subject to the rights of holders of shares of MTGE common stock to challenge such determination in a court of competent jurisdiction. The Offeror reserves the absolute right to reject any and all tenders of shares that it determines are not in the proper form or the acceptance of or exchange for which may be unlawful. The Offeror also reserves the absolute right to waive any defect or irregularity in the tender of any shares. No tender of shares will be deemed to have been validly made until all defects and irregularities in tenders of such shares have been cured or waived by the Offeror. None of the Offeror, Annaly, MTGE, the exchange agent, the information agent nor any other person will be under any duty to give notification of any defects or irregularities in the tender of any shares or will incur any liability for failure to give any such notification. The Offeror s interpretation of the terms and conditions of the offer (including the letter of election and transmittal and instructions thereto) will be final and binding to the fullest extent permitted by law.

MTGE common stockholders who have any questions about the procedure for tendering shares in the offer should contact the information agent at the address and telephone number set forth elsewhere in this document.

Announcement of Results of the Offer

Annaly will announce the final results of the offer, including whether all of the conditions to the offer have been satisfied or waived and whether the Offeror will accept the tendered shares of MTGE common stock for exchange, as promptly as practicable following the expiration date. The announcement will be made by a press release in accordance with applicable securities laws and stock exchange requirements.

Ownership of Annaly Common Stock After the Offer and the Merger

It is estimated that former common stockholders of MTGE will own in the aggregate approximately 4% of the outstanding shares of common stock of Annaly immediately following the consummation of the offer and the merger, assuming that:

- Annaly acquires through the offer and the merger 100% of the outstanding shares of MTGE common stock;
- Annaly issues 43,631,378 shares of Annaly common stock as part of the consideration in the offer and the merger; and
- immediately following completion of the offer and the merger, there are 1,203,328,965 shares of Annaly common stock outstanding (calculated by adding 1,159,697,587, the number of shares of Annaly common stock outstanding as of May 14, 2018, plus 43,631,378, the number of shares of Annaly common stock estimated to be issued as part of the offer and merger consideration).

Purpose of the Offer and the Merger; Dissenters Rights

Purpose of the Offer and the Merger

The purpose of the offer is for Annaly to acquire control of, and ultimately the entire common equity interest in, MTGE. The offer, as the first step in the acquisition of MTGE, is intended to facilitate the acquisition of MTGE. The purpose of the merger is for Annaly to acquire all of the issued and outstanding shares of MTGE common stock it did not acquire in the offer. If the offer is successful, Annaly intends to consummate the merger promptly after the consummation of the offer. After the merger, the MTGE business will be held in a wholly owned subsidiary of Annaly, and the former MTGE stockholders will no longer have any direct ownership interest in the surviving corporation.

No Stockholder Approval

If the offer is consummated, Annaly is not required to and will not seek the approval of MTGE s remaining public stockholders before effecting the merger. Section 3-106.1 of the MGCL provides that following

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consummation of a successful tender offer for any and all of the outstanding shares of the target corporation, and subject to certain other statutory requirements, if the acquiring corporation owns at least the percentage of the shares, and of each class or series of the shares, of the target corporation that would otherwise be required to approve a merger involving the target corporation, and the other stockholders receive the same consideration for their stock in the merger as was payable in the tender offer, the acquiring corporation can effect a merger without the action of the other stockholders of the target corporation. Accordingly, if Annaly consummates the offer, it intends to effect the closing of the merger without a vote of the MTGE stockholders in accordance with Section 3-106.1 of the MGCL.

No Rights of Objecting Stockholders

Pursuant to the MGCL and MTGE s charter, no appraisal rights, rights of objecting stockholders or dissenters rights are available to MTGE stockholders in connection with the offer or the merger.

Going Private Transactions

The SEC has adopted Rule 13e-3 under the Exchange Act, which is applicable to certain going private transactions, and which may under certain circumstances be applicable to the merger or another business combination following the purchase of shares pursuant to the offer in which the Offeror seeks to acquire the remaining shares not held by it. The Offeror believes that Rule 13e-3 will not be applicable to the merger because it is anticipated that the merger will be effected within one year following the consummation of the of