

ANNALY CAPITAL MANAGEMENT INC
Form 10-Q
May 03, 2018

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED: MARCH 31, 2018

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER: 1-13447

ANNALY CAPITAL MANAGEMENT, INC.
(Exact Name of Registrant as Specified in its Charter)

MARYLAND
(State or other jurisdiction of
incorporation or organization) 22-3479661
(IRS Employer Identification No.)

1211 AVENUE OF THE AMERICAS
NEW YORK, NY 10036 10036
(Address of principal executive offices) (Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

to submit and post such files). Yes No

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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 definition of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer 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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Class	Outstanding at April 30, 2018
Common Stock, \$.01 par value	1,159,697,587

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(dollars in thousands, except per share data)

	March 31, 2018 (Unaudited)	December 31, 2017 ⁽¹⁾
ASSETS		
Cash and cash equivalents (including cash pledged as collateral of \$884,667 and \$579,213, respectively) ⁽²⁾	\$984,275	\$706,589
Investments, at fair value:		
Agency mortgage-backed securities (including pledged assets of \$83,893,493 and \$83,628,132, respectively)	88,579,097	90,551,763
Credit risk transfer securities (including pledged assets of \$411,780 and \$363,944, respectively)	628,942	651,764
Non-Agency mortgage-backed securities (including pledged assets of \$499,271 and \$516,078, respectively) ⁽³⁾	1,066,343	1,097,294
Residential mortgage loans (including pledged assets of \$1,376,883 and \$1,169,496, respectively) ⁽⁴⁾	1,535,685	1,438,322
Mortgage servicing rights (including pledged assets of \$5,153 and \$5,224, respectively)	596,378	580,860
Commercial real estate debt investments (including pledged assets of \$2,900,098 and \$3,070,993, respectively) ⁽⁵⁾	2,960,323	3,089,108
Commercial real estate debt and preferred equity, held for investment (including pledged assets of \$529,324 and \$520,329, respectively)	1,081,295	1,029,327
Investments in commercial real estate	480,063	485,953
Corporate debt (including pledged assets of \$666,682 and \$600,049, respectively)	1,152,745	1,011,275
Interest rate swaps, at fair value	69,109	30,272
Other derivatives, at fair value	161,193	283,613
Reverse repurchase agreements	200,459	—
Receivable for investments sold	45,126	1,232
Accrued interest and dividends receivable	326,989	323,526
Other assets	421,448	384,117
Goodwill	71,815	71,815
Intangible assets, net	20,948	23,220
Total assets	\$100,382,233	\$101,760,050
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Repurchase agreements	\$78,015,431	\$77,696,343
Other secured financing	3,830,075	3,837,528
Securitized debt of consolidated VIEs ⁽⁶⁾	2,904,873	2,971,771
Mortgages payable	309,794	309,686
Interest rate swaps, at fair value	427,838	569,129
Other derivatives, at fair value	153,103	38,725
Dividends payable	347,897	347,876

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Payable for investments purchased	91,327	656,581
Accrued interest payable	284,696	253,068
Accounts payable and other liabilities	74,264	207,770
Total liabilities	86,439,298	86,888,477
Stockholders' Equity:		
7.625% Series C Cumulative Redeemable Preferred Stock: 12,000,000 authorized, 7,000,000 and 12,000,000 issued and outstanding, respectively	169,466	290,514
7.50% Series D Cumulative Redeemable Preferred Stock: 18,400,000 authorized, issued and outstanding	445,457	445,457
7.625% Series E Cumulative Redeemable Preferred Stock: 11,500,000 authorized, 0 and 11,500,000 issued and outstanding, respectively	—	287,500
6.95% Series F Cumulative Redeemable Preferred Stock: 28,800,000 authorized, issued and outstanding	696,910	696,910
6.50% Series G Cumulative Redeemable Preferred Stock: 19,550,000 and 0 authorized, 17,000,000 and 0 issued, and outstanding, respectively	411,335	—
Common stock, par value \$0.01 per share, 1,909,750,000 and 1,929,300,000 authorized, 1,159,657,350 and 1,159,585,078 issued and outstanding, respectively	11,597	11,596
Additional paid-in capital	17,218,191	17,221,265
Accumulated other comprehensive income (loss)	(3,000,080)	(1,126,020)
Accumulated deficit	(2,015,612)	(2,961,749)
Total stockholders' equity	13,937,264	14,865,473
Noncontrolling interest	5,671	6,100
Total equity	13,942,935	14,871,573
Total liabilities and equity	\$100,382,233	\$101,760,050

(1) Derived from the audited consolidated financial statements at December 31, 2017.

(2) Includes cash of consolidated Variable Interest Entities ("VIEs") of \$43.2 million and \$42.3 million at March 31, 2018 and December 31, 2017, respectively.

(3) Includes \$61.3 million and \$66.3 million at March 31, 2018 and December 31, 2017, respectively, of non-Agency mortgage-backed securities in a consolidated VIE pledged as collateral and eliminated from the Company's Consolidated Statements of Financial Condition.

(4) Includes securitized residential mortgage loans transferred or pledged to a consolidated VIE carried at fair value of \$560.2 million and \$478.8 million at March 31, 2018 and December 31, 2017, respectively.

- (5) Includes senior securitized commercial mortgage loans of consolidated VIEs carried at fair value of \$2.7 billion and \$2.8 billion at March 31, 2018 and December 31, 2017, respectively.
- (6) Includes securitized debt of consolidated VIEs carried at fair value of \$2.9 billion and \$3.0 billion at March 31, 2018 and December 31, 2017, respectively.

See notes to consolidated financial statements.

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ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

Item 1. Financial Statements

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(dollars in thousands, except per share data)

(Unaudited)

	Three Months Ended	
	March 31,	
	2018	2017
Net interest income:		
Interest income	\$879,487	\$ 587,727
Interest expense	367,421	198,425
Net interest income	512,066	389,302
Realized and unrealized gains (losses):		
Realized gains (losses) on interest rate swaps ⁽¹⁾	(48,160)	(104,156)
Realized gains (losses) on termination or maturity of interest rate swaps	834	—
Unrealized gains (losses) on interest rate swaps	977,285	149,184
Subtotal	929,959	45,028
Net gains (losses) on disposal of investments	13,468	5,235
Net gains (losses) on trading assets	(47,145)	319
Net unrealized gains (losses) on investments measured at fair value through earnings	(51,593)	23,683
Subtotal	(85,270)	29,237
Total realized and unrealized gains (losses)	844,689	74,265
Other income (loss):		
Other income (loss)	34,023	31,646
Total other income (loss)	34,023	31,646
General and administrative expenses:		
Compensation and management fee	44,529	39,262
Other general and administrative expenses	17,981	14,566
Total general and administrative expenses	62,510	53,828
Income (loss) before income taxes	1,328,268	441,385
Income taxes	564	977
Net income (loss)	1,327,704	440,408
Net income (loss) attributable to noncontrolling interest	(96)	(103)
Net income (loss) attributable to Annaly	1,327,800	440,511
Dividends on preferred stock	33,766	23,473
Net income (loss) available (related) to common stockholders	\$ 1,294,034	\$ 417,038
Net income (loss) per share available (related) to common stockholders:		
Basic	\$ 1.12	\$ 0.41
Diluted	\$ 1.12	\$ 0.41
Weighted average number of common shares outstanding:		
Basic	1,159,617,848	1,018,942,746
Diluted	1,160,103,185	1,019,307,379
Dividends declared per share of common stock	\$ 0.30	\$ 0.30
Net income (loss)	\$ 1,327,704	\$ 440,408
Other comprehensive income (loss):		
Unrealized gains (losses) on available-for-sale securities	(1,879,479)	(59,615)
Reclassification adjustment for net (gains) losses included in net income (loss)	5,419	19,417
Other comprehensive income (loss)	(1,874,060)	(40,198)

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Comprehensive income (loss)	(546,356)	400,210
Comprehensive income (loss) attributable to noncontrolling interest	(96)	(103)
Comprehensive income (loss) attributable to Annaly	(546,260)	400,313
Dividends on preferred stock	33,766		23,473
Comprehensive income (loss) attributable to common stockholders	\$(580,026)	\$ 376,840

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

See notes to consolidated financial statements.

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ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

Item 1. Financial Statements

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Three Months Ended March 31, 2018 and 2017

(dollars in thousands, except per share data)

(Unaudited)

	7.875% Series A Cumulative Redeemable Preferred Stock	7.625% Series C Cumulative Redeemable Preferred Stock	7.50% Series D Cumulative Redeemable Preferred Stock	7.625% Series E Cumulative Redeemable Preferred Stock	6.50% Series F Fixed-rate Common stock Rate Cumulative Redeemable Preferred Stock	6.50% Series G Fixed-rate Common stock Rate Cumulative Redeemable Preferred Stock	Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Total stockholders' equity	Non- controlling interest
BALANCE, December 31, 2016	\$ 177,088	\$ 290,514	\$ 445,457	\$ 287,500	\$ 10,189	\$ 15,579,342		\$(1,085,893)	\$(3,136,017)	\$ 12,568,180	\$ 7,700
Net income (loss) attributable to Annaly	—	—	—	—	—	—	—	—	440,511	440,511	—
Net income (loss) attributable to noncontrolling interest	—	—	—	—	—	—	—	—	—	—	(103,000)
Unrealized gains (losses) on available-for-sale securities	—	—	—	—	—	—	—	—	—	—	—