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

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

FORM 10-Q

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

EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED: 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 (Address of principal executive offices)	10036 (Zip Code)

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

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

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

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 þ 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 þ

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

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

ANNALY CAPITAL MANAGEMENT, INC.
FORM 10-Q
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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(dollars in thousands, except per share 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

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 12,000,0000 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.

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)

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.

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	6.95% Series F Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock	6.50% Series G Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock	Common stock par value	Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulate deficit
BALANCE, December 31, 2016	$177,088	$290,514	$445,457	$287,500	$—	$—	$10,189	$15,579,342	$(1,085,893)	$(3,136,01
Net income (loss) attributable to Annaly	—	—	—	—	—	—	—	—	—	440,511
Net income (loss) attributable to noncontrolling interest	—	—	—	—	—	—	—	—	—	—
Unrealized gains (losses) on available-for-sale securities	—	—	—	—	—	—	—	—	(59,615)	—
Reclassification adjustment for net (gains) losses included in net income (loss)	—	—	—	—	—	—	—	—	19,417	—
Stock compensation expense	—	—	—	—	—	—	—	101	—	—
Net proceeds from direct purchase and dividend reinvestment	—	—	—	—	—	—	1	595	—	—
Equity contributions from (distributions to) noncontrolling interest	—	—	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	—	—	—	(3,648

Preferred Series A dividends, declared $0.492 per share										
Preferred Series C dividends, declared $0.477 per share	—	—	—	—	—	—	—	—	—	(5,719
Preferred Series D dividends, declared $0.469 per share	—	—	—	—	—	—	—	—	—	(8,625
Preferred Series E dividends, declared $0.477 per share	—	—	—	—	—	—	—	—	—	(5,481
Common dividends declared, $0.30 per share	—	—	—	—	—	—	—	—	—	(305,691
BALANCE, March 31, 2017	$177,088	$290,514	$445,457	$287,500	$—	$—	$10,190	$15,580,038	$(1,126,091)	$(3,024,67
BALANCE, December 31, 2017	$—	$290,514	$445,457	$287,500	$696,910	$—	$11,596	$17,221,265	$(1,126,020)	$(2,961,74
Net income (loss) attributable to Annaly	—	—	—	—	—	—	—	—	—	1,327,800
Net income (loss) attributable to noncontrolling interest	—	—	—	—	—	—	—	—	—	—
Unrealized gains (losses) on available-for-sale securities	—	—	—	—	—	—	—	—	(1,879,479)	—
Reclassification adjustment for net (gains) losses included in net income (loss)	—	—	—	—	—	—	—	—	5,419	—
Stock compensation expense	—	—	—	—	—	—	—	133	—	—
Redemption of Preferred Stock	—	(121,048)	—	(287,500)	—	—	—	(3,952)	—	—
Net proceeds from direct purchase and dividend reinvestment	—	—	—	—	—	—	1	745	—	—

Net proceeds from issuance of preferred stock	—	—	—	—	—	411,335	—	—	—	—
Equity contributions from (distributions to) noncontrolling interest	—	—	—	—	—	—	—	—	—	—
Preferred Series C dividends, declared $0.477 per share (1)	—	—	—	—	—	—	—	—	—	(4,316
Preferred Series D dividends, declared $0.469 per share	—	—	—	—	—	—	—	—	—	(8,625
Preferred Series E dividends, declared $0.196 per share	—	—	—	—	—	—	—	—	—	(2,253
Preferred Series F dividends, declared $0.434 per share	—	—	—	—	—	—	—	—	—	(12,510
Preferred Series G dividends, declared $0.357 per share	—	—	—	—	—	—	—	—	—	(6,062
Common dividends declared, $0.30 per share	—	—	—	—	—	—	—	—	—	(347,897
BALANCE, March 31, 2018	$—	$169,466	$445,457	$—	$696,910	$411,335	$11,597	$17,218,191	$(3,000,080)	$(2,015,61

(1) Represents dividends declared per share for shares outstanding at March 31, 2018.

See notes to consolidated financial statements.

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

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

	Three Months Ended March 31, 2018	2017
Cash flows from operating activities:		
Net income (loss)	$1,327,704	$440,408
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Amortization of premiums and discounts of investments, net	92,976	201,590
Amortization of securitized debt premiums and discounts and deferred financing costs	408	340
Depreciation, amortization and other noncash expenses	5,822	7,006
Net (gains) losses on disposals of investments	(13,468)	(5,235)
Net (gains) losses on investments and derivatives	(878,547)	(173,186)
Income from unconsolidated joint ventures	618	1,031
Payments on purchases of loans held for sale	(37,190)	(54,234)
Proceeds of sales and repayments of loans held for sale	30,178	144,890
Net payments on derivatives	951,021	(738,872)
Net change in:		
Other assets	(42,361)	(52,903)
Accrued interest and dividends receivable	(2,963)	3,294
Accrued interest payable	31,628	19,465
Accounts payable and other liabilities	(132,910)	(15,995)
Net cash provided by (used in) operating activities	$1,332,916	$(222,401)
Cash flows from investing activities:		
Payments on purchases of Residential Investment Securities	$(3,718,947)	$(2,043,364)
Proceeds from sales of Residential Investment Securities	463,214	1,787,574
Principal payments on Residential Investment Securities	2,696,245	2,952,739
Purchase of MSRs	(249)	(7,210)
Payments on purchases of corporate debt	(230,103)	(91,749)
Principal payments on corporate debt	92,820	44,418
Originations and purchases of commercial real estate related assets	(91,647)	(142,738)
Proceeds from sales on commercial real estate related assets	9,556	11,960
Principal repayments on commercial real estate related assets	130,555	370,689
Proceeds from reverse repurchase agreements	20,050,112	21,015,000
Payments on reverse repurchase agreements	(20,250,571)	(21,015,000)
Distributions in excess of cumulative earnings from unconsolidated joint ventures	2,813	2,042
Payments on purchases of residential mortgage loans held for investment	(167,124)	(375,367)
Proceeds from repayments from residential mortgage loans held for investment	67,384	28,308
Payments on purchases of equity securities	—	(2,104)
Net cash provided by (used in) investing activities	$(945,942)	$2,535,198
Cash flows from financing activities:		
Proceeds from repurchase agreements and other secured financing	$1,299,589,620	$783,704,227
Principal payments on repurchase agreements and other secured financing	(1,299,277,944)	(786,209,502)

Proceeds from issuance of securitized debt	279,203	—
Principal repayments on securitized debt	(317,773)	(197,749)
Payment of deferred financing cost	—	(1,079)
Net proceeds from stock offerings, direct purchases and dividend reinvestments	412,081	596
Redemption of preferred stock	(412,500)	—
Principal payments on participation sold	—	(84)
Principal payments on mortgages payable	—	(18)
Net contributions/(distributions) from/(to) noncontrolling interests	(333)	(366)
Dividends paid	(381,642)	(329,147)
Net cash provided by (used in) financing activities	$(109,288)	$(3,033,122)
Net (decrease) increase in cash and cash equivalents	$277,686	$(720,325)
Cash and cash equivalents including cash pledged as collateral, beginning of period	706,589	1,539,746
Cash and cash equivalents including cash pledged as collateral, end of period	$984,275	$819,421
Supplemental disclosure of cash flow information:		
Interest received	$1,017,534	$787,971
Interest paid (excluding interest paid on interest rate swaps)	$320,988	$223,109
Net interest paid on interest rate swaps	$39,206	$77,192
Taxes paid	$2	$—
Noncash investing activities:		
Receivable for investments sold	$45,126	$354,126
Payable for investments purchased	$91,327	$340,383
Net change in unrealized gains (losses) on available-for-sale securities, net of reclassification adjustment	$(1,874,060)	$(40,198)
Noncash financing activities:		
Dividends declared, not yet paid	$347,897	$305,691

See notes to consolidated financial statements.

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

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

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1. DESCRIPTION OF BUSINESS

Annaly Capital Management, Inc. (the “Company” or “Annaly”) is a Maryland corporation that commenced operations on February 18, 1997. The Company is a leading diversified capital manager that invests in and finances residential and commercial assets. The Company owns a portfolio of real estate related investments, including mortgage pass-through certificates, collateralized mortgage obligations, credit risk transfer (“CRT”) securities, other securities representing interests in or obligations backed by pools of mortgage loans, residential mortgage loans, mortgage servicing rights (“MSRs”), commercial real estate assets and corporate debt. The Company’s principal business objective is to generate net income for distribution to its stockholders and to preserve capital through prudent selection of investments and continuous management of its portfolio. The Company is externally managed by Annaly Management Company LLC (the “Manager”).

The Company’s investment groups are primarily comprised of the following:

- The Annaly Agency Group invests in Agency mortgage-backed securities collateralized by residential mortgages which are guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae.
- The Annaly Residential Credit Group invests in non-Agency residential mortgage assets within securitized product and residential mortgage loan markets.
- The Annaly Commercial Real Estate Group (“ACREG”) originates and invests in commercial mortgage loans, securities, and other commercial real estate debt and equity investments.
- The Annaly Middle Market Lending Group (“AMML”) provides financing to private equity-backed middle market businesses across the capital structure.

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

2. BASIS OF PRESENTATION

The accompanying consolidated financial statements and related notes of the Company have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”).

The accompanying consolidated financial statements and related notes are unaudited and should be read in conjunction with the audited consolidated financial statements included in the Company’s most recent annual report on Form 10-K. The consolidated financial information as of December 31,

2017 has been derived from audited consolidated financial statements included in the Company’s annual report on Form 10-K for the fiscal year ended December 31, 2017.

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

3. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation – The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. The Company reclassified previously presented financial information to conform to the current presentation.

Variable Interest Entities – A VIE is defined as an entity in which equity investors (i) do not have the characteristics of a controlling financial interest, and/or (ii) do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. A variable interest is an investment or other interest that will absorb portions of a VIE's expected losses or receive portions of the entity's expected residual returns. The Company has evaluated all of its investments in legal entities in order to determine if they are variable interests in VIEs. A VIE is required to be consolidated by its primary beneficiary, which is defined as the party that (i) has the power to control the activities that most significantly impact the VIE's economic performance and (ii) has the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE.

To assess whether the Company has the power to direct the activities of a VIE that most significantly impact the VIE's economic performance, the Company considers all facts and circumstances, including the Company's role in establishing the VIE and the Company's ongoing rights and responsibilities. This assessment includes first, identifying the activities that most significantly impact the VIE's economic performance; and second, identifying which party, if any, has power over those activities. In general, the party that makes the most significant decisions affecting the VIE or has the right to unilaterally remove those decision makers is deemed to have the power to direct the activities of the VIE.

To assess whether the Company has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE, the Company applies significant judgment and considers all of its economic interests, including debt and equity investments and other arrangements deemed to be variable interests, both explicit and implicit, in the VIE. This assessment requires that the Company apply judgment in determining whether these interests, in the aggregate, are considered potentially significant to the VIE. Factors considered in assessing significance include: the design of the VIE, including its capitalization structure; subordination of interests; payment priority; and relative share of interests held across various classes within the VIE's capital structure.

The Company performs ongoing reassessments of whether changes in the facts and circumstances regarding the Company's involvement with a VIE causes the Company's consolidation conclusion to change.

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

Cash and Cash Equivalents – Cash and cash equivalents include cash on hand, cash held in money market funds on an overnight basis and cash pledged as collateral with counterparties. Cash deposited with clearing organizations is carried at cost, which approximates fair value. The Company also maintains collateral in the form of cash on margin with counterparties to its interest rate swaps and other derivatives. In accordance with a clearing organization's rulebook, the Company presents the fair value of centrally cleared interest rate swaps net of variation margin pledged under such transactions. At March 31, 2018, $873.4 million of variation margin was reported as a reduction to interest rate swaps, at fair value. RCap Securities, Inc., the Company's wholly-owned broker-dealer ("RCap") is a member of various clearing organizations with which it maintains cash required to conduct its day-to-day clearance activities. Cash and securities deposited with clearing organizations and collateral held in the form of cash on margin with counterparties to the Company's interest rate swaps and other derivatives totaled $884.7 million and $579.2 million at March 31, 2018 and December 31, 2017, respectively.

Fair Value Measurements – The Company reports various financial instruments at fair value. A complete discussion of the methodology utilized by the Company to estimate the fair value of certain financial instruments is included in these Notes to Consolidated Financial Statements.

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

Agency Mortgage-Backed Securities, Agency Debentures, Non-Agency Mortgage-Backed Securities and Credit Risk

Transfer Securities – The Company invests in mortgage pass-through certificates, collateralized mortgage obligations and other mortgage-backed securities representing interests in or obligations backed by pools of residential or multifamily mortgage loans and certificates guaranteed by the Government National Mortgage Association ("Ginnie Mae"), the Federal Home Loan Mortgage Corporation ("Freddie Mac") or the Federal National Mortgage Association ("Fannie Mae") (collectively, "Agency mortgage-backed securities"). These Agency mortgage-backed securities may include forward contracts for Agency mortgage-backed securities purchases or sales of a generic pool, on a to-be-announced basis ("TBA securities"). The Company also invests in Agency debentures issued by the Federal Home Loan Banks, Freddie Mac and Fannie Mae, as well as CRT securities. CRT securities are risk sharing instruments issued by Fannie Mae and Freddie Mac, and similarly structured transactions arranged by third party market participants. CRT securities are designed to synthetically transfer mortgage credit risk from Fannie Mae and Freddie Mac to private investors. The Company also invests in non-Agency mortgage-backed securities such as those issued in non-performing loan ("NPL") and re-performing loan ("RPL") securitizations.

Agency mortgage-backed securities, Agency debentures, non-Agency mortgage-backed securities and CRT securities are referred to herein as "Residential Investment Securities." Although the Company generally intends to hold most of its Residential Investment Securities until maturity, it may, from time to time, sell any of its Residential Investment Securities as part of the overall management of its portfolio. Residential Investment Securities classified as available-for-sale are reported at fair value with unrealized gains and losses reported as a component of Other comprehensive income (loss) unless the Company has elected the fair value option, where the unrealized gains and losses on these financial instruments are recorded through earnings. The fair value of Residential Investment Securities classified as available-for-sale are estimated by management and are compared to independent sources for reasonableness. Residential Investment Securities transactions are recorded on trade date, including TBA securities that meet the regular-way securities scope exception from derivative accounting. Gains and losses on sales of Residential Investment Securities are recorded on trade date based on the specific identification method.

The Company elected the fair value option for interest-only mortgage-backed securities, non-Agency mortgage-backed securities, reverse mortgages and CRT securities as this election simplifies the accounting. Interest-only securities and inverse interest-only securities are collectively referred to as "interest-only securities." These interest-only mortgage-backed securities represent the Company's right to receive a specified proportion of the contractual interest flows of specific mortgage-backed securities. Interest-only mortgage-backed securities, non-Agency mortgage-backed

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securities, reverse mortgages and CRT securities are measured at fair value with changes in fair value recorded as Net unrealized gains (losses) on investments measured at fair value through earnings in the Company's Consolidated Statements of Comprehensive Income (Loss). The interest-only securities are included in Agency mortgage-backed securities at fair value on the accompanying Consolidated Statements of Financial Condition.

The Company recognizes coupon income, which is a component of interest income, based upon the outstanding principal amounts of the Residential Investment Securities and their contractual terms. In addition, the Company amortizes or accretes premiums or discounts into interest income for its Agency mortgage-backed securities (other than multifamily securities), taking into account estimates of future principal prepayments in the calculation of the effective yield. The Company recalculates the effective yield as differences between anticipated and actual prepayments occur. Using third-party model and market information to project future cash flows and expected remaining lives of securities, the effective interest rate determined for each security is applied as if it had been in place from the date of the security's acquisition. The amortized cost of the security is then adjusted to the amount that would have existed had the new effective yield been applied since the acquisition date, which results in a cumulative premium amortization adjustment in each period. The adjustment to amortized cost is offset with a charge or credit to interest income. Changes in interest rates and other market factors will impact prepayment speed projections and the amount of premium amortization recognized in any given period.

Premiums or discounts associated with the purchase of Agency interest-only securities, reverse mortgages and residential credit securities are amortized or accreted into interest income based upon current expected future cash flows with any adjustment to yield made on a prospective basis.

The following table summarizes the interest income recognition methodology for Residential Investment Securities:

	Interest Income Methodology
Agency	
Fixed-rate pass-through (1)	Effective yield (3)
Adjustable-rate pass-through (1)	Effective yield (3)
Multifamily (1)	Contractual Cash Flows
Collateralized Mortgage Obligation ("CMO") (1)	Effective yield (3)
Reverse mortgages (2)	Prospective
Interest-only (2)	Prospective
Residential Credit	
CRT (2)	Prospective
Alt-A (2)	Prospective
Prime (2)	Prospective
Subprime (2)	Prospective
NPL/RPL (2)	Prospective
Prime Jumbo (2)	Prospective
Prime Jumbo interest-only (2)	Prospective

(1) Changes in fair value are recognized in Other comprehensive income (loss) on the accompanying Consolidated Statements of Comprehensive Income (Loss).

(2) Changes in fair value are recognized in Net unrealized gains (losses) on investments measured at fair value through earnings on the accompanying Consolidated Statements of Comprehensive Income (Loss).

(3) Effective yield is recalculated for differences between estimated and actual prepayments and the amortized cost is adjusted as if the new effective yield had been applied since inception.

Residential Mortgage Loans – The Company’s residential mortgage loans are primarily comprised of performing adjustable-rate and fixed-rate whole loans. Additionally, the Company consolidates a collateralized financing entity that securitized prime adjustable-rate jumbo residential mortgage loans. The Company also consolidates a securitization trust in which it had purchased subordinated securities because it also has certain powers and rights to direct the activities of such trust. Please refer to the “Variable Interest Entities” Note for further information related to the Company’s consolidated Residential Mortgage Loan Trusts. The Company made elections to account for the investments in residential mortgage loans held in its portfolio and in the securitization trusts at fair value as these elections simplify the accounting. Residential mortgage loans are recognized at fair value on the accompanying Consolidated Statements of Financial Condition. Changes in the estimated fair value are presented in Net unrealized gains (losses) on investments measured at fair value through earnings in the Consolidated Statements of Comprehensive Income (Loss).

Premiums and discounts associated with the purchase of residential mortgage loans and with those held in the securitization trusts are primarily amortized or accreted into interest income over their estimated remaining lives using the effective interest rates inherent in the estimated cash flows from the mortgage loans. Amortization of premiums and accretion of discounts are presented in Interest income in the Consolidated Statements of Comprehensive Income (Loss).

There was no real estate acquired in settlement of residential mortgage loans at March 31, 2018 or December 31, 2017 other than real estate held by securitization trusts that the Company was required to consolidate. The Company would be considered to have received physical possession of residential real estate property collateralizing a residential mortgage loan, so that the loan is derecognized and the real estate property would be recognized, if either (i) the Company obtains legal title to the residential real estate property upon completion of a foreclosure or (ii) the borrower conveys all interest in the residential real estate property to the Company to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement.

MSRs – MSRs represent the rights associated with servicing pools of residential mortgage loans, which the Company intends to hold as investments. The Company and its subsidiaries do not originate or directly service mortgage loans. Rather, these activities are carried out by duly licensed subservicers who perform substantially all servicing functions for the loans underlying the MSRs. The Company elected to account for all of its investments in MSRs at fair value. As such, they are recognized at fair value on the accompanying Consolidated Statements of Financial Condition with changes in the estimated fair value presented as a component of Net unrealized gains (losses) on investments measured at fair value through earnings in the Consolidated Statements of Comprehensive Income (Loss). Servicing income, net of servicing expenses, is reported in Other income (loss) in the Consolidated Statements of Comprehensive Income (Loss).

Equity Securities – The Company may invest in equity securities that are not accounted for under the equity method or do not result in consolidation. These equity securities are required to be reported at fair value with unrealized gains and losses reported in the Consolidated Statements of Comprehensive Income (Loss) as Net gains (losses) on trading assets, unless the securities do not have readily determinable fair values. For such equity securities without readily determinable fair values, the Company has elected to apply the measurement alternative and carry the securities at cost less impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer. For equity securities carried at fair value through earnings, dividends are recorded in earnings on the declaration date. Dividends from equity securities without readily determinable fair values are recognized as income when received to the extent they are distributed from net accumulated earnings.

Derivative Instruments – The Company may use a variety of derivative instruments to economically hedge some of its exposure to market risks, including interest rate and prepayment risk. These instruments include, but are not limited to, interest rate swaps, options to enter into interest rate swaps (“swaptions”), TBA securities without intent to accept delivery (“TBA derivatives”), options on TBA securities (“MBS options”), U.S. Treasury and Eurodollar futures contracts and certain forward purchase commitments. The Company may also enter into other types of mortgage derivatives such as interest-only securities, credit derivatives referencing the commercial mortgage-backed securities index and synthetic total return swaps. Derivatives are accounted for in accordance with the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 815, Derivatives and Hedging, which requires recognition of all derivatives as either assets or liabilities at fair value in the Consolidated Statements of Financial Condition with changes in fair value recognized in the Consolidated Statements of Comprehensive Income (Loss). The changes in the estimated fair value are presented within Net gains (losses) on trading assets with the exception of interest rate swaps which are separately presented. None of the Company’s derivative transactions have been designated as hedging instruments for accounting purposes.

Some derivative agreements contain provisions that allow for netting or setting off by counterparty; however, the Company elected to present related assets and liabilities on a gross basis in the Consolidated Statements of Financial Condition.

Interest Rate Swap Agreements – Interest rate swap agreements are the primary instruments used to mitigate interest rate risk. In particular, the Company uses interest rate swap agreements to manage its exposure to changing interest rates on its repurchase agreements by economically hedging cash flows associated with these borrowings. Interest rate swap agreements may or may not be cleared through a derivatives clearing organization (“DCO”). Uncleared interest rate swaps are fair valued using internal pricing models and compared to the counterparty market values. Centrally cleared interest rate swaps are fair valued using internal pricing models and compared to the DCO’s market values. We may use market agreed coupon (“MAC”) interest rate swaps in which we may receive or make a payment at the time of entering into the swap to compensate for the out of the market nature of such interest rate swap. MAC interest rate swaps are also centrally cleared and fair valued using internal pricing models and compared to the DCO’s market value.

Swaptions – Swaptions are purchased or sold to mitigate the potential impact of increases or decreases in interest rates. Interest rate swaptions provide the option to enter into an interest rate swap agreement for a predetermined notional amount, stated term and pay and receive interest rates in the future. They are not centrally cleared. The premium paid or received for swaptions is reported as an asset or liability in the Consolidated Statements of Financial Condition. If a swaption expires unexercised, the realized gain (loss) on the swaption would be equal to the premium received or paid. If the Company sells or exercises a swaption, the realized gain or loss on the swaption would be equal to the difference between the cash received or the fair value of the underlying interest rate swap received and the premium paid.

The fair value of swaptions is estimated using internal pricing models and compared to the counterparty market value.

TBA Dollar Rolls – TBA dollar roll transactions are accounted for as a series of derivative transactions. The fair value of TBA derivatives is based on methods similar to those used to value Agency mortgage-backed securities.

MBS Options – MBS options are generally options on TBA contracts, which help manage mortgage market risks and volatility while providing the potential to enhance returns. MBS options are over-the-counter traded instruments and those written on current-coupon mortgage-backed securities are typically the most liquid. MBS options are measured at fair value using internal pricing models and compared to the counterparty market value at the valuation date.

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Futures Contracts – Futures contracts are derivatives that track the prices of specific assets or benchmark rates. Short sales of futures contracts help to mitigate the potential impact of changes in interest rates on the portfolio performance. The Company maintains margin accounts which are settled daily with Futures Commission Merchants (“FCMs”). The margin requirement varies based on the market value of the open positions and the equity retained in the account. Futures contracts are fair valued based on exchange pricing.
Forward Purchase Commitments – The Company may enter into forward purchase commitments with counterparties whereby the Company commits to purchasing residential mortgage loans at a particular price, provided the residential mortgage loans close with the counterparties. The counterparties are required to deliver the committed loans on a “best efforts” basis.

Goodwill and Intangible Assets – The Company’s acquisitions are accounted for using the acquisition method. Under the acquisition method, net assets and results of operations of acquired companies are included in the consolidated financial statements from the date of acquisition. The purchase prices are allocated to the assets acquired, including identifiable intangible assets, and the liabilities assumed based on their estimated fair values at the date of acquisition. The excess of purchase price over the fair value of the net assets acquired is recognized as goodwill. Conversely, any excess of the fair value of the net assets acquired over the purchase price is recognized as a bargain purchase gain.

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

Reverse Repurchase and Repurchase Agreements – The Company finances the acquisition of a significant portion of its assets with repurchase agreements. At the inception of each transaction, the Company assesses each of the specified criteria in ASC 860, Transfers and Servicing, and has determined that each of the financing agreements meet the specified criteria in this guidance.

Reverse repurchase agreements and repurchase agreements with the same counterparty and the same maturity are presented net in the Consolidated Statements of Financial Condition when the terms of the agreements meet the criteria to permit netting. The Company reports cash flows on repurchase agreements as financing activities and cash flows on reverse repurchase agreements as investing activities in the Consolidated Statements of Cash Flows.

Stock Based Compensation – The Company is required to measure and recognize in the consolidated financial statements the compensation cost relating to share-based payment transactions. The Company recognizes compensation expense on a straight-line basis over the requisite service period for the entire award.

Income Taxes – The Company has elected to be taxed as a REIT and intends to comply with the provisions of the Code, with respect thereto. Accordingly, the Company will not be subject to federal income tax to the extent of its distributions to stockholders and as long as certain asset, income and stock ownership tests are met. The Company and certain of its direct and indirect subsidiaries, including RCap and certain subsidiaries of ACREG and Hatteras Financial Corp., have made separate joint elections to treat these subsidiaries as taxable REIT subsidiaries (“TRSs”). As such, each of these TRSs is taxable as a domestic C corporation and subject to federal, state and local income taxes

based upon their taxable income.
The provisions of ASC 740, Income Taxes (“ASC 740”), clarify the accounting for uncertainty in income taxes recognized in financial statements and prescribe a recognition threshold and measurement attribute for uncertain tax positions taken or expected to be taken on a tax return. ASC 740 also requires that interest and penalties related to unrecognized tax benefits be recognized in the financial statements. The Company does not have any unrecognized tax benefits that would affect its financial position. Thus, no accruals for penalties and interest were necessary at March 31, 2018 and December 31, 2017.

Commercial Real Estate Investments

Commercial Real Estate Debt Investments – The Company’s commercial real estate debt investments are comprised of commercial mortgage-backed securities and loans held by consolidated collateralized financing entities. Commercial mortgage-backed securities are classified as available-for-sale and reported at fair value with unrealized gains and losses reported as a component of Other comprehensive income (loss), except for conduit commercial mortgage-backed securities for which the Company has elected to fair value through earnings to simplify the accounting. Management evaluates commercial mortgage-backed securities, excluding conduit commercial mortgage-backed securities, for other-than-temporary impairment at least quarterly. See the “Commercial Real Estate

Investments" Note for additional information regarding the consolidated collateralized financing entities.

Commercial Real Estate Loans and Preferred Equity Interests (collectively referred to as "CRE Debt and Preferred Equity Investments") – The Company's commercial real estate loans are comprised of fixed-rate and adjustable-rate loans. The Company designates loans as held for investment if it has the intent and ability to hold the loans until maturity or payoff. The difference between the principal amount of a loan and proceeds at acquisition is recorded as either a discount or premium. Commercial real estate loans that are designated as held for investment and are originated or purchased by the Company are carried at their outstanding principal balance, net of unamortized origination fees and costs, premiums or discounts, less an allowance for losses if necessary. Origination fees and costs, premiums or discounts are amortized into interest income over the life of the loan.

If the Company intends to sell or securitize the loans and the securitization vehicle is not expected to be consolidated, they are classified as held for sale. Commercial real estate loans that are designated as held for sale are carried at the lower of amortized cost or fair value and recorded as Commercial loans held for sale, net in the accompanying Consolidated Statements of Financial Condition. Any origination fees and costs or purchase premiums or discounts are deferred and recognized upon sale. The Company determines the fair value of commercial real estate loans held for sale on an individual loan basis.

Preferred equity interests are designated as held for investment and are carried at their outstanding principal balance, net of unamortized origination fees and costs, premiums or discounts, less a reserve for estimated losses if necessary. See the "Commercial Real Estate Investments" Note for additional information.

Investments in Commercial Real Estate – Investments in commercial real estate are carried at historical cost less accumulated depreciation. Historical cost includes all costs necessary to bring the asset to the condition and location necessary for its intended use, including financing during the construction period. Costs directly related to acquisitions deemed to be business combinations are expensed. Ordinary repairs and maintenance which are not reimbursed by tenants are expensed as incurred. Major replacements and improvements that extend the useful life of the asset are capitalized and depreciated over their useful life.

Investments in commercial real estate are depreciated using the straight-line method over the estimated useful lives of the assets, summarized as follows:

Category	Term
Building	30 - 40 years
Site improvements	1 - 28 years

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

The Company evaluates whether real estate acquired in connection with a foreclosure or deed in lieu of foreclosure, herein collectively referred to as a foreclosure, ("REO") constitutes a business and whether business combination accounting is applicable. Upon foreclosure of a property, the excess of the carrying value of a loan, if any, over the estimated fair value of the property, less estimated costs to sell, is charged to provision for loan losses.

Investments in commercial real estate, including REO, that do not meet the criteria to be classified as held for sale are separately presented in the Consolidated Statements of Financial Condition as held for investment. Real estate held for sale is reported at the lower of its carrying value or its estimated fair value less estimated costs to sell. Once a property is determined to be held for sale, depreciation is no longer recorded.

The Company’s real estate portfolio (REO and real estate held for investment) is reviewed on a quarterly basis, or more frequently as necessary, to assess whether there are any indicators that the value of its operating real estate may be impaired or that its carrying value may not be recoverable. A property’s value is considered impaired if the Company’s estimate of the aggregate future undiscounted cash flows to be generated by the property is less than the carrying value of the property. In conducting this review, the Company considers U.S. macroeconomic factors, including real estate sector conditions, together with asset specific and other factors. To the extent impairment has occurred and is considered to be other than temporary, the loss will be measured as the excess of the carrying amount of the property over the calculated fair value of the property.

Revenue Recognition – Commercial Real Estate Investments – Interest income is accrued based on the outstanding principal amount of CRE Debt and Preferred Equity Investments and their contractual terms. Origination fees and costs, premiums or discounts associated with the purchase of CRE Debt and Preferred Equity Investments are amortized or accreted into interest income over the lives of the CRE Debt and Preferred Equity Investments using the effective interest method.

Corporate Debt
Corporate Loans – The Company’s investments in corporate loans are designated as held for investment when the

Company has the intent and ability to hold the investment until maturity or payoff. These investments are carried at their principal balance outstanding plus any premiums or discounts less allowances for loan losses. Interest income from coupon payments is accrued based upon the outstanding principal amounts of the debt and its contractual terms. Premiums and discounts are amortized or accreted into interest income using the effective interest method. These investments typically take the form of senior secured loans primarily in first or second lien positions. The Company's senior secured loans generally have stated maturities of three to eight years. In connection with these senior secured loans the Company receives a security interest in certain of the assets of the borrower and such assets support repayment of such loans. Senior secured loans are generally exposed to less amount of credit risk than more junior loans given their seniority to scheduled principal and interest and priority of security in the assets of the borrower. To date, the significant majority of the Company's investments in corporate debt have been funded term loans versus bonds.

Corporate Debt Securities – The Company's investments in corporate debt that are debt securities are designated as held-to-maturity when the Company has the intent and ability to hold the investment until maturity. These investments are carried at their principal balance outstanding plus any premiums or discounts less other-than-temporary impairment. Interest income from coupon payments is accrued based upon the outstanding principal amounts of the debt and its contractual terms. Premiums and discounts are amortized or accreted into interest income using the interest method.

Impairment of Securities and Loans

Other-Than-Temporary Impairment – Management evaluates available-for-sale securities and held-to-maturity debt securities for other-than-temporary impairment at least quarterly, and more frequently when economic or market conditions warrant such evaluation.

When the fair value of an available-for-sale security is less than its amortized cost, the security is considered impaired. For securities that are impaired, the Company determines if it (1) has the intent to sell the security, (2) is more likely than not that it will be required to sell the security before recovery of its amortized cost basis, or (3) does not expect to recover the entire amortized cost basis of the security. Further, the security is analyzed for credit loss (the difference between the present value of cash flows expected to be collected and the amortized cost basis). The credit loss, if any, will then be recognized in the Consolidated Statements of Comprehensive Income (Loss), while the balance of losses related to other factors will be recognized as a component of Other comprehensive income (loss). If the fair value is less than the cost of a held-to-maturity security, the Company performs an analysis to determine whether it expects to recover the entire cost basis of the security. There was no other-than-temporary impairment recognized for the three months ended March 31, 2018 and 2017.

Allowance for Losses – The Company evaluates the need for a loss reserve on its CRE Debt and Preferred Equity Investments and its corporate loans. A provision for losses related to CRE Debt and Preferred Equity Investments and corporate loans, including those accounted for under ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality, may be established when it is probable the Company will not collect amounts contractually due or all amounts previously estimated to be collectible. Management assesses the credit quality of the portfolio and adequacy of loan loss reserves on a quarterly basis, or more frequently as necessary. Significant judgment is required in this analysis. Depending on the expected recovery of its investment, the Company considers the estimated net recoverable value of the CRE Debt and Preferred Equity Investments as well as other factors, including but not limited to the fair value of any collateral, the amount and the status of any senior debt, the prospects for the borrower and the competitive landscape where the borrower conducts business. To determine if loan loss allowances are required on investments in corporate debt, the Company reviews the monthly and/or quarterly financial statements of the borrowers, verifies loan compliance packages, if applicable, and analyzes current results relative to budgets and sensitivities performed at inception of the investment. Because these determinations are based upon projections of future economic events, which are inherently subjective, the amounts ultimately realized may differ materially from the carrying value as of the reporting date.

The Company may be exposed to various levels of credit risk depending on the nature of its investments and credit enhancements, if any, supporting its assets. The Company's core investment process includes procedures related to the initial approval and periodic monitoring of credit risk and other risks associated with each investment. The Company's investment underwriting procedures include evaluation of the underlying borrowers' ability to manage and operate their respective properties or companies. Management reviews loan-to-value metrics at origination or acquisition of a new investment and if events occur that trigger re-evaluation by management.

Management generally reviews the most recent financial information produced by the borrower, which may include, but is not limited to, net operating income ("NOI"), debt service coverage ratios, property debt yields (net cash flow or NOI divided by the amount of outstanding indebtedness), loan per unit and rent rolls relating to each of the Company's CRE Debt and Preferred Equity Investments, and may consider other factors management deems important. Management also reviews market pricing to determine each borrower's ability to refinance their respective assets at the maturity of each loan, economic trends (both macro and those affecting the property specifically), and the supply and demand of competing projects in the sub-market in which each subject property is located. Management monitors the financial condition and operating results of its corporate borrowers and continually assesses the future outlook of the borrower's financial performance in light of industry developments, management changes and company-specific considerations.

The Company evaluates the need for a loss reserve on at least a quarterly basis through its surveillance review process. In connection with the surveillance review process, the Company's CRE Debt and Preferred Equity Investments are assigned an internal risk rating. The loan risk ratings conform to guidance provided by the Office of the Comptroller of the Currency for commercial real estate lending. The initial internal risk ratings ("Initial Ratings") are based on net operating income, debt service coverage ratios,
property debt yields, loan per unit, rent rolls and other factors management deems important. A provision for loan losses may occur when it is probable the Company will not collect amounts contractually due or all amounts previously estimated to be collectible of the Company's CRE Debt and Preferred Equity Investments and based upon leverage and cash flow coverages of the borrowers' debt and operating obligations. The final internal risk ratings are influenced by other quantitative and qualitative factors that can result in an adjustment to the Initial Ratings, subject to review and approval by the respective committee. The internal risk rating categories include "Performing", "Performing - Closely Monitored", "Performing - Special Mention", "Substandard", "Doubtful" or "Loss". Performing loans meet all present contractual obligations. Performing - Closely Monitored loans meet all present contractual obligations, but are transitional or could be exhibiting some weakness in both leverage and liquidity. Performing - Special Mention loans exhibit potential weakness that deserves management's close attention and if uncorrected, may result in deterioration of repayment prospects. Substandard loans are inadequately protected by sound worth and paying capacity of the obligor or of the collateral pledged with a distinct possibility that loss will be sustained if some of the deficiencies are not corrected. Doubtful loans are Substandard loans whereby collection of all contractual principal and interest is highly questionable or improbable. Loss loans are considered uncollectible.

Nonaccrual Status – If collection of a loan's principal or interest is in doubt or the loan is 90 days or more past due, interest income is not accrued. For nonaccrual status loans carried at fair value or held for sale, interest is not accrued, but is recognized on a cash basis. For nonaccrual status loans carried at amortized cost, if collection of principal is not in doubt, but collection of interest is in doubt, interest income is recognized on a cash basis. If collection of principal is in doubt, any interest received is applied against principal until collectability of the remaining balance is no longer in doubt; at that point, any interest income is recognized on a cash basis.

Generally, a loan is returned to accrual status when the borrower has resumed paying the full amount of the scheduled contractual obligation, if all principal and interest amounts contractually due are reasonably assured of repayment within a reasonable period of time and there is a sustained period of repayment performance by the borrower. The Company did not have any impaired loans, nonaccrual loans, or loans in default as all of the loans were performing at March 31, 2018 and December 31, 2017. There were no allowances for loan losses at March 31, 2018 and December 31, 2017.

Broker Dealer Activities

Reverse Repurchase and Repurchase Agreements – RCap enters into reverse repurchase agreements and repurchase agreements as part of its matched book trading activity. Reverse repurchase agreements are recorded on settlement date at the contractual amount and are collateralized by mortgage-backed or other securities. Margin calls are made by RCap as necessary based on the daily valuation of the underlying collateral as compared to the contract price. RCap generates income from the spread between what is earned on the reverse repurchase agreements and what is paid on the matched repurchase agreements. RCap's policy is to obtain possession of collateral with a market value in excess of the principal amount loaned under reverse repurchase agreements. To ensure that the market value of the underlying collateral remains sufficient, collateral is valued daily, and RCap will require counterparties to deposit additional collateral, when necessary. All reverse repurchase activities are transacted under master repurchase agreements that give RCap the right, in the event of default, to liquidate collateral held and in some instances, to offset receivables and payables with the same counterparty. Substantially all of RCap's reverse repurchase activity is with affiliated entities.

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Recent Accounting Pronouncements

The Company considers the applicability and impact of all Accounting Standards Updates ("ASUs"). ASUs not listed

below were not applicable, not expected to have a significant impact on the Company's consolidated financial statements when adopted, or did not have a significant impact on the Company's consolidated financial statements upon adoption.

Standard	Description	Effective Date	Effect on the financial statements or other significant matters
Standards that are not yet adopted			
ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	This ASU updates the existing incurred loss model to a current expected credit loss ("CECL") model for financial assets and net investments in leases that are not accounted for at fair value through earnings. The amendments affect loans, held-to-maturity debt securities, trade receivables, net investments in leases, off-balance sheet credit exposures and any other financial assets not excluded from the scope. There are also limited amendments to the impairment model for available-for-sale debt securities.	January 1, 2020 (early adoption permitted)	The Company currently plans to adopt the new standard on its effective date. While the Company is continuing to assess the impact the ASU will have on the consolidated financial statements, the measurement of expected credit losses under the CECL model will be based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amounts of the financial assets in scope of the model. The Company needs to complete the development of an appropriate allowance methodology, assess the impact on the consolidated financial statements and determine appropriate internal controls and financial statement disclosures. Further, based on the amended guidance for available-for-sale debt securities, the Company: • will be required to use an allowance approach to recognize credit impairment, with the allowance to be limited to the amount by which the security's fair value is less than its amortized cost basis; • may not consider the length of time fair value has been below amortized cost, and • may not consider recoveries of fair value after the balance sheet date when assessing whether a credit loss exists.

Standard	Description	Effective Date	Effect on the financial statements or other significant matters
Standards that were adopted			
ASU 2017-01 Business Combinations	This update provides a screen to determine and a framework to evaluate when a set of assets and	January 1, 2018	The amendments are expected to result in fewer transactions being accounted for as business combinations.

(Topic 805): Clarifying the Definition of a Business	activities is a business.		
ASU 2016-15 Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments	This update provides specific guidance on certain cash flow classification issues, including classification of cash receipts and payments that have aspects of more than one class of cash flows. If cash flows cannot be separated by source or use, the appropriate classification should depend on the activity that is likely to be the predominant source or use of cash flows.	January 1, 2018	As a result of adopting this standard, the Company reclassified its cash flows on reverse repurchase and repurchase agreements entered into by RCap from operating activities to investing and financing activities, respectively, in the Consolidated Statements of Cash Flows. The Company applied the retrospective transition method, which resulted in reclassification of comparative periods.

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4. FINANCIAL INSTRUMENTS

The following table presents characteristics for certain of the Company's financial instruments at March 31, 2018 and December 31, 2017.

Financial Instruments [(1)]

Balance Sheet Location	Form	Measurement Basis	March 31, 2018	December 31, 2017
(dollars in thousands)				
Assets				
Agency mortgage-backed securities	Securities	Fair value, with unrealized gains (losses) through other comprehensive income	$87,519,400	$ 89,426,437
Agency mortgage-backed securities	Securities	Fair value, with unrealized gains (losses) through earnings	1,059,697	1,125,326
Total agency mortgage-backed securities			88,579,097	90,551,763
Credit risk transfer securities	Securities	Fair value, with unrealized gains (losses) through earnings	628,942	651,764
Non-agency mortgage-backed securities	Securities	Fair value, with unrealized gains (losses) through earnings	1,066,343	1,097,294
Residential mortgage loans	Loans	Fair value, with unrealized gains (losses) through earnings	1,535,685	1,438,322
Commercial real estate debt investments	Loans	Fair value, with unrealized gains (losses) through earnings	2,695,513	2,826,357
Commercial real estate debt investments	Securities	Fair value, with unrealized gains (losses) through other comprehensive income	238,490	244,636
Commercial real estate debt investments	Securities	Fair value, with unrealized gains (losses) through earnings	26,320	18,115
Total commercial real estate debt investments			2,960,323	3,089,108
Commercial real estate debt and preferred equity, held for investment	Loans	Amortized cost	1,081,295	1,029,327
Corporate debt	Loans	Amortized cost	1,152,745	1,011,275
Reverse repurchase agreements	Reverse repurchase agreements	Amortized cost	200,459	—
Liabilities				
Repurchase agreements	Repurchase agreements	Amortized cost	78,015,431	77,696,343
Other secured financing	Loans	Amortized cost	3,830,075	3,837,528
Securitized debt of consolidated VIEs	Securities	Fair value, with unrealized gains (losses) through earnings	2,904,873	2,971,771
Mortgages payable	Loans	Amortized cost	309,794	309,686

(1) Receivable for investments sold, Accrued interest and dividends receivable, Dividends payable, Payable for investments purchased and Accrued interest payable are accounted for at cost.

5. RESIDENTIAL INVESTMENT SECURITIES

The following tables present the Company's Residential Investment Securities portfolio that was carried at their fair value at March 31, 2018 and December 31, 2017:

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	March 31, 2018						
	Principal / Notional	Remaining Premium	Remaining Discount	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Agency	(dollars in thousands)						
Fixed-rate pass-through	$78,830,362	$4,563,295	$(1,624)	$83,392,033	$62,602	$(2,906,925)	$80,547,710
Adjustable-rate pass-through	6,321,714	292,681	(1,313)	6,613,082	12,301	(152,751)	6,472,632
Interest-only	6,656,130	1,296,294	—	1,296,294	2,593	(278,896)	1,019,991
Multifamily	510,063	4,730	(1,189)	513,604	211	(14,757)	499,058
Reverse mortgages	35,464	4,411	—	39,875	—	(169)	39,706
Total Agency investments	$92,353,733	$6,161,411	$(4,126)	$91,854,888	$77,707	$(3,353,498)	$88,579,097
Residential Credit							
CRT	$579,077	$27,299	$(1,215)	$605,161	$24,195	$(414)	$628,942
Alt-A	200,819	498	(33,609)	167,708	12,542	(211)	180,039
Prime	222,366	345	(24,870)	197,841	17,041	(54)	214,828
Subprime	516,223	1,998	(75,243)	442,978	50,320	(792)	492,506
NPL/RPL	39,286	14	(94)	39,206	366	—	39,572
Prime Jumbo (>= 2010 Vintage)	125,902	614	(3,929)	122,587	195	(1,582)	121,200
Prime Jumbo (>= 2010 Vintage) Interest-Only	939,627	14,516	—	14,516	3,682	—	18,198
Total residential credit investments	$2,623,300	$45,284	$(138,960)	$1,589,997	$108,341	$(3,053)	$1,695,285
Total Residential Investment Securities	$94,977,033	$6,206,695	$(143,086)	$93,444,885	$186,048	$(3,356,551)	$90,274,382

	December 31, 2017						
	Principal / Notional	Remaining Premium	Remaining Discount	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Agency	(dollars in thousands)						
Fixed-rate pass-through	$78,509,335	$4,514,815	$(1,750)	$83,022,400	$140,115	$(1,178,673)	$81,983,842
Adjustable-rate pass-through	6,760,991	277,212	(1,952)	7,036,251	15,776	(103,121)	6,948,906
Interest-only	6,804,715	1,326,761	—	1,326,761	1,863	(242,862)	1,085,762
Multifamily	490,753	5,038	(341)	495,450	84	(1,845)	493,689
Reverse mortgages	35,000	4,527	—	39,527	37	—	39,564
Total Agency investments	$92,600,794	$6,128,353	$(4,043)	$91,920,389	$157,875	$(1,526,501)	$90,551,763
Residential Credit							
CRT	$593,027	$25,463	$(3,456)	$615,034	$36,730	$—	$651,764
Alt-A	204,213	499	(34,000)	170,712	13,976	(802)	183,886
Prime	197,756	358	(24,158)	173,956	18,804	—	192,760
Subprime	554,470	2,037	(78,561)	477,946	56,024	(90)	533,880
NPL/RPL	42,585	14	(117)	42,482	506	—	42,988
Prime Jumbo (>= 2010 Vintage)	130,025	627	(3,956)	126,696	1,038	(1,112)	126,622
Prime Jumbo (>= 2010 Vintage) Interest-Only	989,052	15,287	—	15,287	1,871	—	17,158
Total residential credit investments	$2,711,128	$44,285	$(144,248)	$1,622,113	$128,949	$(2,004)	$1,749,058

Total Residential Investment Securities	$95,311,922	$6,172,638	$(148,291)	$93,542,502	$286,824	$(1,528,505)	$92,300,821

The following table presents the Company's Agency mortgage-backed securities portfolio concentration by issuing Agency at March 31, 2018 and December 31, 2017:

Investment Type	March 31, 2018	December 31, 2017
	(dollars in thousands)	
Fannie Mae	$62,734,494	$63,361,415
Freddie Mac	25,750,396	27,091,978
Ginnie Mae	94,207	98,370
Total	$88,579,097	$90,551,763

Actual maturities of the Company's Residential Investment Securities portfolio are generally shorter than stated contractual maturities because actual maturities of the

portfolio are generally affected by periodic payments and prepayments of principal on underlying mortgages.

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The following table summarizes the Company's available-for-sale Residential Investment Securities at March 31, 2018

and December 31, 2017, according to their estimated weighted average life classifications:

Weighted Average Life	March 31, 2018 Estimated Fair Value	March 31, 2018 Amortized Cost	December 31, 2017 Estimated Fair Value	December 31, 2017 Amortized Cost
	(dollars in thousands)			
Less than one year	$10,123	$10,159	$471,977	$476,538
Greater than one year through five years	12,523,917	12,774,529	13,838,890	13,925,749
Greater than five years through ten years	76,865,618	79,772,617	77,273,833	78,431,852
Greater than ten years	874,724	887,580	716,121	708,363
Total	$90,274,382	$93,444,885	$92,300,821	$93,542,502

The weighted average lives of the Agency mortgage-backed securities at March 31, 2018 and December 31, 2017 in the table above are based upon projected principal prepayment rates. The actual weighted average lives of the Agency mortgage-backed securities could be longer or shorter than projected.

The following table presents the gross unrealized losses and estimated fair value of the Company's Agency mortgage-backed securities, accounted for as available-for-sale where the fair value option has not been elected, by length of time that such securities have been in a continuous unrealized loss position at March 31, 2018 and December 31, 2017.

	March 31, 2018 Estimated Fair Value [1]	March 31, 2018 Gross Unrealized Losses [1]	March 31, 2018 Number of Securities [1]	December 31, 2017 Estimated Fair Value [1]	December 31, 2017 Gross Unrealized Losses [1]	December 31, 2017 Number of Securities [1]
	(dollars in thousands)					
Less than 12 Months	$47,494,769	$(1,222,887)	1,497	$39,878,158	$(272,234)	1,114
12 Months or More	37,677,339	(1,851,715)	935	39,491,238	(1,011,405)	911
Total	$85,172,108	$(3,074,602)	2,432	$79,369,396	$(1,283,639)	2,025

[1] Excludes interest-only mortgage-backed securities.

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

amount of the securities by the respective issuing government agency.

During the three months ended March 31, 2018, the Company disposed of $463.4 million of Residential Investment Securities, resulting in a net realized gain of $13.0 million.

During the three months ended March 31, 2017, the Company disposed of $2.1 billion of Residential Investment Securities, resulting in a net realized gain of $1.2 million.

6. RESIDENTIAL MORTGAGE LOANS

The following table presents the fair value and the unpaid principal balances of the residential mortgage loan portfolio at March 31, 2018 and December 31, 2017:

	March 31, 2018	December 31, 2017
	(dollars in thousands)	
Fair value	$1,535,685	$ 1,438,322
Unpaid principal balance	$1,527,171	$ 1,419,807

The following table provides information regarding the line items and amounts recognized in the Consolidated Statements of Comprehensive Income (Loss) for the three months ended March 31, 2018 and 2017 for these investments:

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	Three Months Ended	
	March 31, 2018	March 31, 2017
	(dollars in thousands)	
Net interest income	$13,495	$3,589
Net gains (losses) on disposal of investments	(1,758)	(993)
Net unrealized gains (losses) on investments measured at fair value through earnings	(9,864)	815
Total included in net income (loss)	$1,873	$3,411

The following table provides the geographic concentrations based on the unpaid principal balances at March 31, 2018 and December 31, 2017, for the residential mortgage loans, including loans held in securitization trusts:

Geographic Concentrations of Residential Mortgage Loans

March 31, 2018		December 31, 2017	
Property Location	% of Balance	Property Location	% of Balance
California	52.8 %	California	49.8 %
Florida	8.3 %	Florida	9.3 %
New York	6.9 %	New York	7.1 %
All other (none individually greater than 5%)	32.0 %	All other (none individually greater than 5%)	33.8 %
Total	100.0 %	Total	100.0 %

The following table provides additional data on the Company’s residential mortgage loans, including loans held in securitization trusts, at March 31, 2018 and December 31, 2017:

	March 31, 2018		December 31, 2017	
	Portfolio Range	Portfolio Weighted Average	Portfolio Range	Portfolio Weighted Average
	(dollars in thousands)		(dollars in thousands)	
Unpaid principal balance	$1 - $3,649	$531	$1 - $3,663	$514
Interest rate	1.88% - 7.50%	4.37%	1.63% - 7.50%	4.25%
Maturity	1/1/2028 - 1/1/2058	10/2/2043	1/1/2028 - 5/1/2057	2/1/2043
FICO score at loan origination	498 - 823	749	468 - 823	748
Loan-to-value ratio at loan origination	11% - 100%	67%	11% - 100%	68%

At March 31, 2018 and December 31, 2017, approximately 73% and 78%, respectively, of the carrying value of the Company’s residential mortgage loans, including loans held in securitization trusts, were adjustable-rate.

7. MORTGAGE SERVICING RIGHTS

The Company invests in MSRs and has elected to carry them at fair value. The following table presents activity related to MSRs for the three months ended March 31, 2018 and 2017:

Three Months Ended

	March 31, 2018	March 31, 2017
	(dollars in thousands)	
Fair value, beginning of period	$580,860	$652,216
Purchases	—	213
Change in fair value due to:		
Changes in valuation inputs or assumptions [1]	36,674	(6,233)
Other changes, including realization of expected cash flows	(21,156)	(14,030)
Fair value, end of period	$596,378	$632,166

[1] Principally represents changes in discount rates and prepayment speed inputs used in valuation model, primarily due to changes in interest rates.

For the three months ended March 31, 2018 and 2017, the Company recognized $28.5 million and $34.5 million, respectively, of net servicing income from MSRs in Other income (loss) in the Consolidated Statements of Comprehensive Income (Loss).

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8. COMMERCIAL REAL ESTATE INVESTMENTS

CRE Debt and Preferred Equity Investments

At March 31, 2018 and December 31, 2017, commercial real estate investments held for investment were comprised of the following:

	March 31, 2018			December 31, 2017		
	Outstanding Principal	Carrying Value (1)	Percentage of Loan Portfolio (2)	Outstanding Principal	Carrying Value (1)	Percentage of Loan Portfolio (2)
	(dollars in thousands)					
Senior mortgages	$685,457	$681,819	63.2 %	$629,143	$625,900	60.9 %
Mezzanine loans	390,976	390,487	36.0 %	395,015	394,442	38.2 %
Preferred equity	9,000	8,989	0.8 %	9,000	8,985	0.9 %
Total	$1,085,433	$1,081,295	100.0 %	$1,033,158	$1,029,327	100.0 %

(1) Carrying value includes unamortized origination fees of $4.1 million and $3.8 million at March 31, 2018 and December 31, 2017, respectively.
(2) Based on outstanding principal.

	Three months ended March 31, 2018			
	Senior Mortgages	Mezzanine Loans	Preferred Equity	Total
	(dollars in thousands)			
Beginning balance	$625,900	$394,442	$ 8,985	$1,029,327
Originations & advances (principal)	56,954	601	—	57,555
Principal payments	(640)	(4,640)	—	(5,280)
Net (increase) decrease in origination fees	(871)	—	—	(871)
Amortization of net origination fees	476	84	4	564
Net carrying value	$681,819	$390,487	$ 8,989	$1,081,295

	December 31, 2017			
	Senior Mortgages	Mezzanine Loans	Preferred Equity	Total
	(dollars in thousands)			
Beginning balance	$510,071	$451,467	$ 8,967	$970,505
Originations & advances (principal)	338,242	69,121	—	407,363
Principal payments	(221,421)	(127,799)	—	(349,220)
Amortization & accretion of (premium) discounts	(44)	28	—	(16)
Net (increase) decrease in origination fees	(3,317)	(605)	—	(3,922)
Amortization of net origination fees	2,369	2,230	18	4,617
Net carrying value	$625,900	$394,442	$ 8,985	$1,029,327

Internal CRE Debt and Preferred Equity Investment Ratings

The Company’s internal loan risk ratings are based on the guidance provided by the Office of the Comptroller of the Currency for commercial real estate lending. The Company’s internal risk rating categories include “Performing”, “Performing - Closely Monitored”, “Performing - Special Mention”, “Substandard”, “Doubtful” or “Loss”. Performing loans meet all present contractual obligations. Performing - Closely Monitored loans meet all present contractual

obligations, but are transitional or could be exhibiting some weakness in both leverage and liquidity. Performing - Special Mention loans meet all present contractual obligations, but exhibit potential weakness that deserves management’s close attention and if uncorrected, may result in deterioration of repayment prospects. Substandard loans are inadequately protected by sound worth and paying capacity of the obligor or of the collateral pledged with a distinct possibility that loss will be sustained if some of the deficiencies are not corrected. Doubtful loans are Substandard loans whereby collection of all contractual principal and interest is highly questionable

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or improbable. Loss loans are considered uncollectible. The Company did not have any impaired loans, nonaccrual loans, or loans in default in the commercial loans portfolio as all of

the loans were performing at March 31, 2018 and December 31, 2017. As such, no provision for loan losses was deemed necessary at March 31, 2018 and December 31, 2017.

	March 31, 2018									
		Percentage of CRE Debt and Preferred Equity Portfolio	Internal Ratings							
Investment Type	Outstanding Principal			Performing	Performing - Closely Monitored	Performing - Special Mention	Substandard (1)	Doubtful	Loss	Total
	(dollars in thousands)									
Senior mortgages	$685,457	63.2	%	$439,992	$ 141,275	$ 36,800	$ 67,390	$ —	$ —	$685,457
Mezzanine loans	390,976	36.0	%	216,740	56,498	117,738	—	—	—	390,976
Preferred equity	9,000	0.8	%	—	—	9,000	—	—	—	9,000
Total	$1,085,433	100.0	%	$656,732	$ 197,773	$ 163,538	$ 67,390	$ —	$ —	$1,085,433

	December 31, 2017									
		Percentage of CRE Debt and Preferred Equity Portfolio	Internal Ratings							
Investment Type	Outstanding Principal			Performing	Performing - Closely Monitored	Performing - Special Mention	Substandard (1)	Doubtful	Loss	Total
	(dollars in thousands)									
Senior mortgages	$629,143	60.9	%	$409,878	$ 115,075	$ 36,800	$ 67,390	$ —	$ —	$629,143
Mezzanine loans	395,015	38.2	%	206,169	66,498	122,348	—	—	—	395,015
Preferred equity	9,000	0.9	%	—	—	9,000	—	—	—	9,000
Total	$1,033,158	100.0	%	$616,047	$ 181,573	$ 168,148	$ 67,390	$ —	$ —	$1,033,158

(1) The Company transferred one loan to Substandard during the year ended December 31, 2017. The downgrade in risk rating was based on the borrower’s failure to meet originally projected performance targets. The Company evaluated whether an impairment exists and determined that, based on quantitative and qualitative factors, including that the borrower is current, the Company expects repayment of contractual amounts due.

At March 31, 2018 and December 31, 2017, approximately 86% of the carrying value of the Company’s CRE Debt and Preferred Equity Investments, excluding commercial loans held for sale, were adjustable-rate.

Investments in Commercial Real Estate

There were no acquisitions of real estate holdings during the three months ended March 31, 2018 and 2017. The Company sold one of its wholly-owned triple net leased properties during the three months ended March 31, 2017 for $12.0 million and recognized a gain on sale of $5.1 million.

The weighted average amortization period for intangible assets and liabilities at March 31, 2018 is 4.4 years. Above market leases and leasehold intangible assets are included in Intangible assets, net and below market leases are included in Accounts payable and other liabilities in the Consolidated Statements of Financial Condition.

	March 31, 2018	December 31, 2017
	(dollars in thousands)	
Real estate held for investment, at amortized cost		
Land	$111,012	$ 111,012
Buildings and improvements	331,390	330,959
Subtotal	442,402	441,971
Less: accumulated depreciation	(52,723)	(48,920)
Total real estate held for investment, at amortized cost, net	389,679	393,051
Equity in unconsolidated joint ventures	90,384	92,902
Investments in commercial real estate, net	$480,063	$ 485,953

Depreciation expense was $3.7 million and $4.0 million for the three months ended March 31, 2018 and 2017,

respectively and is included in Other income (loss) in the Consolidated Statements of Comprehensive Income (Loss).

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Rental Income

The minimum rental amounts due under leases are generally either subject to scheduled fixed increases or adjustments. The leases generally also require that the tenants reimburse the Company for certain operating costs.

Approximate future minimum rents to be received over the next five years and thereafter for non-cancelable operating leases in effect at March 31, 2018 for consolidated investments in real estate are as follows:

	March 31, 2018 (dollars in thousands)
2018 (remaining)	$ 22,306
2019	26,423
2020	21,708
2021	17,302
2022	12,356
Later years	20,687
	$ 120,782

Mortgage loans payable at March 31, 2018 and December 31, 2017, were as follows:

March 31, 2018

Property	Mortgage Carrying Value	Mortgage Principal	Interest Rate	Fixed/Floating Rate	Maturity Date	Priority
(dollars in thousands)						
Joint Ventures	$286,471	$289,125	4.03% - 4.61%	Fixed	2024 and 2025	First liens
Tennessee	12,303	12,350	4.01%	Fixed	9/6/2019	First liens
Virginia	11,020	11,025	3.58%	Fixed	6/6/2019	First liens
Total	$309,794	$312,500				

December 31, 2017

Property	Mortgage Carrying Value	Mortgage Principal	Interest Rate	Fixed/Floating Rate	Maturity Date	Priority
(dollars in thousands)						
Joint Ventures	$286,373	$289,125	4.03% - 4.61%	Fixed	2024 and 2025	First liens
Tennessee	12,294	12,350	4.01%	Fixed	9/6/2019	First liens
Virginia	11,019	11,025	3.58%	Fixed	6/6/2019	First liens
Total	$309,686	$312,500				

The following table details future mortgage loan principal payments at March 31, 2018:

	Mortgage Loan Principal Payments

	(dollars in thousands)
2018 (remaining)	$ —
2019	23,375
2020	—
2021	—
2022	—
Later years	289,125
Total	$ 312,500

On December 11, 2015, the Company originated a $335.0 million recapitalization financing with respect to eight class A/B office properties in Orange County California. The Company previously classified the senior mortgage loan as held for sale. During the three months ended March 31, 2017, the Company sold the remaining balance of $115.0 million

($114.4 million, net of origination fees) of the senior loan to unrelated third parties at carrying value. Accordingly, no gain or loss was recorded in connection with the sale.

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9. CORPORATE DEBT

The Company invests in corporate loans and corporate debt securities through AMML. The industry and rate sensitivity dispersion of the portfolio at March 31, 2018 and December 31, 2017 are as follows:

	Industry Dispersion					
	March 31, 2018			December 31, 2017		
	Fixed Rate	Floating Rate	Total	Fixed Rate	Floating Rate	Total
	(dollars in thousands)					
Aircraft and Parts	$—	$34,797	$34,797	$—	$34,814	$34,814
Coating, Engraving and Allied Services	—	63,245	63,245	—	64,034	64,034
Computer Programming, Data Processing & Other Computer Related Services	—	209,854	209,854	—	192,946	192,946
Drugs	—	38,716	38,716	—	38,708	38,708
Electronic Components & Accessories	—	23,961	23,961	—	23,916	23,916
Engineering, Architectural & Surveying	—	10,647	10,647	—	—	—
Groceries and Related Products	—	14,771	14,771	—	14,794	14,794
Grocery Stores	—	23,512	23,512	—	23,531	23,531
Home Health Care Services	—	23,660	23,660	—	23,779	23,779
Insurance Agents, Brokers and Services	—	28,866	28,866	—	28,872	28,872
Management and Public Relations Services	—	140,789	140,789	—	94,871	94,871
Medical and Dental Laboratories	—	26,936	26,936	—	26,956	26,956
Miscellaneous Business Services	—	19,703	19,703	—	19,723	19,723
Miscellaneous Equipment Rental and Leasing	—	49,264	49,264	—	49,129	49,129
Miscellaneous Health and Allied Services, not elsewhere classified	—	54,246	54,246	—	25,963	25,963
Miscellaneous Nonmetallic Minerals, except Fuels	—	26,056	26,056	—	25,992	25,992
Miscellaneous Plastic Products	—	9,920	9,920	—	9,879	9,879
Motor Vehicles and Motor Vehicle Equipment	—	17,333	17,333	—	—	—
Motor Vehicles and Motor Vehicle Parts and Supplies	—	23,582	23,582	—	12,212	12,212
Offices and Clinics of Doctors of Medicine	—	97,794	97,794	—	76,678	76,678
Offices and Clinics of Other Health Practitioners	—	19,872	19,872	—	18,979	18,979
Public Warehousing and Storage	—	50,685	50,685	—	48,890	48,890
Research, Development and Testing Services	—	33,304	33,304	—	33,155	33,155
Schools and Educational Services, not elsewhere classified	—	20,359	20,359	—	20,625	20,625
Services Allied with the Exchange of Securities	—	14,943	14,943	—	13,960	13,960
Surgical, Medical, and Dental Instruments and Supplies	—	16,677	16,677	—	29,687	29,687
Telephone Communications	—	59,253	59,253	—	59,182	59,182
Total	$—	$1,152,745	$1,152,745	$—	$1,011,275	$1,011,275

The table below reflects the Company’s aggregate positions by their respective place in the capital structure of the borrowers at March 31, 2018 and December 31, 2017.

	March 31, 2018	December 31, 2017
	(dollars in thousands)	
First lien loans	$664,276	$ 582,724
Second lien loans	488,469	428,551

Total	$ 1,152,745	$ 1,011,275

10. VARIABLE INTEREST ENTITIES

In February 2015, the Company purchased the junior-most tranche, Class C Certificate of the Freddie Mac securitization, FREMF Mortgage Trust 2015-KLSF ("FREMF 2015-KLSF") for $102.1 million. The underlying portfolio is a pool

of 11 floating rate multifamily mortgage loans with a cut-off principal balance of $1.4 billion. The Company is required to consolidate the FREMF 2015-KLSF Trust's assets and liabilities of $549.5 million and $509.4 million, respectively, at March 31, 2018.

In April 2015, the Company purchased the junior-most tranche, Class C Certificate of the Freddie Mac securitization, FREMF Mortgage Trust 2015-KF07 ("FREMF 2015-KF07") for $89.4 million. The underlying portfolio is a pool of 40 floating rate multifamily mortgage loans with a cut-off principal balance of $1.2 billion. The Company is required to consolidate the FREMF 2015-KF07 Trust's assets and liabilities of $632.6 million and $587.5 million, respectively, at March 31, 2018.

In February 2016, the Company purchased the junior- most tranche, Class C Certificate of the Freddie Mac securitization, FREMF Mortgage Trust 2016-KLH1 ("FREMF 2016-KLH1") for $107.6 million, net of a $4.4 million discount to face value of $112.0 million. The underlying portfolio is a pool of 28 floating rate multifamily mortgage loans with a cut-off principal balance of $1.5 billion. The Company is required to consolidate the FREMF 2016-KLH1 Trust's assets and liabilities of $1.5 billion and $1.4 billion, respectively, at March 31, 2018. FREMF 2015-KLSF, FREMF 2015-KF07 and FREMF 2016-KLH1 are collectively referred to herein as the FREMF Trusts.

The FREMF Trusts are structured as pass-through entities that receive principal and interest on the underlying collateral and distribute those payments to the certificate holders. The FREMF Trusts are VIEs and the Company is considered to be the primary beneficiary as a result of its ability to replace the special servicer without cause through its ownership of the Class C Certificates and its current designation as the directing certificate holder. The Company's exposure to the obligations of the VIEs is generally limited to the Company's investment in the FREMF Trusts of $198.1 million. Assets of the FREMF Trusts may only be used to settle obligations of the FREMF Trusts. Creditors of the FREMF Trusts have no recourse to the general credit of the Company. The Company is not contractually required to provide and has not provided any form of financial support to the FREMF Trusts. No gain or loss was recognized upon initial consolidation of the FREMF Trusts, but $0.8 million of related costs were expensed. The FREMF Trusts' assets are included in Commercial real estate debt investments and the FREMF Trusts' liabilities are included in Securitized debt of consolidated VIEs in the accompanying Consolidated Statements of Financial Condition.

Upon consolidation, the Company elected the fair value option for the financial assets and liabilities of the FREMF Trusts in order to avoid an accounting mismatch, and to more faithfully represent the economics of its interest in the entities. The fair value option requires that changes in fair value be reflected in the Company's Consolidated Statements of Comprehensive Income (Loss). The Company early adopted ASU 2014-13 and applied the practical expedient fair value measurement, whereby the Company determines whether the fair value of the financial assets or financial liabilities is more observable as a basis for measuring the less observable financial instruments. The Company has

determined that the fair value of the financial liabilities of the FREMF Trusts are more observable, since the prices for these liabilities are primarily available from third-party pricing services utilized for multifamily mortgage-backed securities, while the individual assets of the trusts are inherently less capable of precise measurement given their illiquid nature and the limitations on available information related to these assets. Given that the Company's methodology for valuing the financial assets of the FREMF Trusts are an aggregate fair value derived from the fair value of the financial liabilities, the Company has determined that the fair value of each of the financial assets in their entirety should be classified in Level 2 of the fair value measurement hierarchy.

The FREMF Trusts mortgage loans had an unpaid principal balance of $2.7 billion at March 31, 2018. At March 31, 2018, there are no loans 90 days or more past due or on nonaccrual status. There is no gain or loss attributable to instrument-specific credit risk of the underlying loans or securitized debt securities at March 31, 2018 based upon the Company's process of monitoring events of default on the underlying mortgage loans.

The Company consolidates a residential mortgage trust that issued residential mortgage-backed securities that are collateralized by residential mortgage loans that had been transferred to the trust by one of the Company's subsidiaries. The Company owns most of the mortgage-backed securities issued by this VIE, including the subordinate securities, and a subsidiary of the Company continues to be the master servicer. As such, the Company is deemed to be the primary beneficiary of the residential mortgage trust and consolidates the entity. The Company has elected the fair value option for the financial assets and liabilities of this VIE, but has elected not to apply the practical expedient under ASU 2014-13 as prices of both the financial liabilities and financial assets of the residential mortgage trust are available from third-party pricing services. The contractual principal amount of the residential mortgage trust's debt held by third parties was $34.0 million at March 31, 2018. The Company also consolidates a residential securitization trust in which it had purchased subordinated securities because its liquidation rights over the trusts became exercisable in December 2017. The Company has elected the fair value option for the financial assets and liabilities of this VIE, but has elected not to apply the practical expedient under ASU 2014-13 as prices of both the financial liabilities and financial assets of the residential mortgage trust are available from third-party pricing services. The contractual principal amount of the residential mortgage trust's debt held by third parties was $94.4 million at March 31, 2018.

In March 2018, the Company closed OBX 2018-01 Trust ("OBX Trust"), with a face value of $327.5 million. The securitization represented a financing transaction which provided non-recourse financing to the Company collateralized by residential mortgage loans purchased by the Company. A total of $279.2 million of bonds were issued to third parties and the Company retained $60.9 million of mortgage-backed securities. The Company is deemed to be the primary beneficiary and consolidates the OBX Trust because it has power to direct the activities that most significantly impact the OBX Trust's performance and holds a variable interest that could be potentially significant to this VIE. The Company has elected the fair value option for the financial assets and liabilities of this VIE, but has elected not to apply the practical expedient under ASU 2014-13 as prices of both the financial liabilities and financial assets of the residential mortgage trust are available from third-party pricing services. The Company incurred approximately $1.5 million of costs in connection with the securitization that were expensed as incurred. The contractual principal amount of the OBX Trust's debt held by third parties was $279.2 million at March 31, 2018.

Although the loans have been sold for bankruptcy and state law purposes, the transfers of the residential mortgage loans to the OBX Trust did not qualify for sale accounting and are reflected as an intercompany secured borrowing that is eliminated upon consolidation.

In June 2016, a consolidated subsidiary of the Company entered into a $300.0 million credit facility with a third party financial institution. The subsidiary was deemed to be a VIE and the Company was determined to be the primary beneficiary due to its role as collateral manager and because it holds a variable interest in the entity that could be potentially significant to the entity. The Company has pledged corporate loans with a carrying amount of $457.7 million at March 31, 2018 as collateral for this credit facility. The transfers did not qualify for sale accounting and are reflected as an intercompany secured borrowing that is eliminated upon consolidation. At March 31, 2018, the subsidiary had an intercompany receivable of $124.9 million, which eliminates upon consolidation and an Other secured financing of $124.9 million to the third party financial institution.

In July 2017, a consolidated subsidiary of the Company entered into a $150.0 million credit facility with a third party financial institution. The subsidiary was deemed to be a VIE

and the Company was determined to be the primary beneficiary due to its role as servicer and because it holds a variable interest in the entity that could potentially be significant to the entity. The Company has transferred corporate loans to the subsidiary with a carrying amount of $208.9 million at March 31, 2018, which continue to be reflected in the Company's Consolidated Statements of Financial Condition in Corporate debt. At March 31, 2018, the subsidiary had an Other secured financing of $100.3 million to the third party financial institution.

The Company also owns variable interests in an entity that invests in MSRs and has structured its operations, funding and capitalization into pools of assets and liabilities, each referred to as a "silo." Owners of variable interests in a given silo are entitled to all of the returns and risk of loss on the investments and operations of that silo and have no substantive recourse to the assets of any other silo. While the Company previously held 100% of the voting interests in this entity, in August 2017, the Company sold 100% of such interests, and entered into an agreement with the entity's affiliated portfolio manager giving the Company the power over the silo in which it owns all of the beneficial interests. As a result, the Company is considered to be the primary beneficiary and consolidates this silo.

The Company's exposure to the obligations of its VIEs is generally limited to the Company's investment in the VIEs of $1.5 billion at March 31, 2018. Assets of the VIEs may only be used to settle obligations of the VIEs. Creditors of the VIEs have no recourse to the general credit of the Company. The Company is not contractually required to provide and has not provided any form of financial support to the VIEs. No gains or losses were recognized upon consolidation of existing VIEs. Interest income and expense are recognized using the effective interest method.

The statements of financial condition of the Company's VIEs, excluding the credit facility VIEs and OBX Trust, that are reflected in the Company's Consolidated Statements of Financial Condition at March 31, 2018 and December 31, 2017 are as follows:

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	March 31, 2018		
	FREMF Trusts	Residential Mortgage Loan Trusts	MSR Silo
	(dollars in thousands)		
Assets			
Cash and cash equivalents	$—	$—	$43,206
Commercial real estate debt investments	2,695,513	—	—
Residential mortgage loans	—	229,278	25,206
Mortgage servicing rights	—	—	596,378
Accrued interest receivable	10,762	901	—
Other assets	—	87	35,486
Total assets	$2,706,275	$230,266	$700,276
Liabilities			
Securitized debt (non-recourse) at fair value	$2,497,410	$128,260	$—
Other secured financing	—	—	16,557
Other derivatives, at fair value	—	—	8
Accrued interest payable	4,668	316	—
Accounts payable and other liabilities	—	123	2,570
Total liabilities	$2,502,078	$128,699	$19,135

	December 31, 2017		
	FREMF Trusts	Residential Mortgage Loan Trusts	MSR Silo
	(dollars in thousands)		
Assets			
Cash and cash equivalents	$—	$—	$42,293
Commercial real estate debt investments	2,826,357	—	—
Residential mortgage loans	—	478,811	19,667
Mortgage servicing rights	—	—	580,860
Accrued interest receivable	10,339	1,599	—
Other derivatives, at fair value	—	—	1
Other assets	—	1,418	32,354
Total assets	$2,836,696	$481,828	$675,175
Liabilities			
Securitized debt (non-recourse) at fair value	$2,620,952	$350,819	$—
Other secured financing	—	—	10,496
Accrued interest payable	4,554	931	—
Accounts payable and other liabilities	—	112	4,856
Total liabilities	$2,625,506	$351,862	$15,352

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The statements of comprehensive income (loss) of the Company's VIEs, excluding the credit facility VIEs and OBX Trust, that are reflected in the Company's Consolidated Statements of Comprehensive Income (Loss) for the three months ended March 31, 2018 and 2017 are as follows:

	For the Three Months Ended March 31, 2018		
	FREMF Trusts	Residential Mortgage Loan Trusts	MSR Silo
	(dollars in thousands)		
Net interest income:			
Interest income	$23,838	$ 2,373	$635
Interest expense	13,834	1,759	192
Net interest income	10,004	614	443
Realized gain (loss) on disposal of investments	—	2,042	(571)
Net gains (losses) on trading assets	—	—	69
Net unrealized gains (losses) on investments measured at fair value through earnings	292	(816)	14,615
Other income (loss)	(4,477)	(77)	28,716
General and administration expenses	—	14	472
Net income (loss)	$5,819	$ 1,749	$42,800

	For the Three Months Ended March 31, 2017		
	FREMF Trusts	Residential Mortgage Loan Trusts	MSR Silo
	(dollars in thousands)		
Net interest income:			
Interest income	$27,719	$ 1,369	$—
Interest expense	14,576	274	65
Net interest income	13,143	1,095	(65)
Realized gain (loss) on disposal of investments	—	(261)	(509)
Net unrealized gains (losses) on investments measured at fair value through earnings	702	982	(20,264)
Other income (loss)	(6,298)	(97)	34,588
General and administration expenses	—	20	1,102
Net income (loss)	$7,547	$ 1,699	$12,648

The geographic concentrations of credit risk exceeding 5% of the total loan unpaid principal balances related to the Company's VIEs, excluding the credit facility VIEs and OBX Trust, at March 31, 2018 are as follows:

Securitized Loans at Fair Value Geographic Concentration of Credit Risk

FREMF Trusts			Residential Mortgage Loan Trusts		
Property Location	Principal Balance	% of Balance	Property Location	Principal Balance	% of Balance
(dollars in thousands)					

Maryland	$494,604	18.5 %	California	$76,367	33.0 %
Texas	361,641	13.6 %	Florida	21,340	9.2 %
Virginia	329,250	12.4 %	Texas	18,357	7.9 %
New York	280,925	10.5 %	Illinois	15,752	6.8 %
North Carolina	232,271	8.7 %	New Jersey	13,290	5.7 %
Pennsylvania	225,810	8.5 %	Other [1]	86,430	37.4 %
Massachusetts	179,440	6.7 %			
Ohio	156,834	5.9 %			
Other [1]	404,652	15.2 %			
Total	$2,665,427	100.0 %		$231,536	100.0 %

(1) No individual state greater than 5%.

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11. FAIR VALUE MEASUREMENTS

The Company follows fair value guidance in accordance with GAAP to account for its financial instruments. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

GAAP requires classification of financial instruments into a three-level hierarchy based on the priority of the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest priority input that is significant to the fair value measurement of the instrument. Financial assets and liabilities recorded at fair value on the Consolidated Statements of Financial Condition or disclosed in the related notes are categorized based on the inputs to the valuation techniques as follows:

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

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

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

The Company designates its securities as trading, available-for-sale or held-to-maturity depending upon the type of security and the Company's intent and ability to hold such security to maturity. Securities classified as available-for-sale and trading are reported at fair value on a recurring basis.

The following is a description of the valuation methodologies used for instruments carried at fair value. These methodologies are applied to assets and liabilities across the three-level fair value hierarchy, with the observability of inputs determining the appropriate level.

Residential Investment Securities, interest rate swaps, swaptions and other derivatives are valued using quoted prices or internally estimated prices for similar assets using internal models. The Company incorporates common market pricing methods, including a spread measurement to the Treasury curve as well as underlying characteristics of the particular security including coupon, prepayment speeds, periodic and life caps, rate reset period and expected life of

the security in its estimates of fair value. Fair value estimates for residential mortgage loans are generated by a discounted cash flow model and are primarily based on observable market-based inputs including discount rates, prepayment speeds, delinquency levels, and credit losses. Management reviews and indirectly corroborates its estimates of the fair value derived using internal models by comparing its results to independent prices provided by dealers in the securities and/or third party pricing services. Certain liquid asset classes, such as Agency fixed-rate pass-throughs, may be priced using independent sources such as quoted prices for TBA securities.

Futures contracts are valued using quoted prices for identical instruments in active markets and are classified as Level 1.

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

The fair value of commercial mortgage-backed securities classified as available-for-sale is determined based upon quoted prices of similar assets in recent market transactions and requires the application of judgment due to differences in the underlying collateral. Consequently, Commercial real estate debt investments carried at fair value are classified as Level 2.

For the fair value of securitized debt of consolidated VIEs, refer to the Note titled "Variable Interest Entities" for additional information.

The Company classifies its investments in MSRs as Level 3 in the fair value measurements hierarchy. Fair value estimates for these investments are obtained from models, which use significant unobservable inputs in their valuations. These valuations primarily utilize discounted cash flow models that incorporate unobservable market data inputs including prepayment rates, delinquency levels, costs to service and discount rates. Model valuations are then compared to valuations obtained from third-party pricing providers. Management reviews the valuations received from third-party pricing providers and uses them as a point of comparison to its internally modeled values. The valuation of MSRs requires significant judgment by management and the third-party pricing providers. Assumptions used for which there is a lack of observable inputs may significantly impact the resulting fair value and therefore the Company’s financial statements.

The following tables present the estimated fair values of financial instruments measured at fair value on a recurring basis. There were no transfers between levels of the fair value hierarchy during the periods presented.

	March 31, 2018			
	Level 1	Level 2	Level 3	Total
	(dollars in thousands)			
Assets:				
Agency mortgage-backed securities	$—	$88,579,097	$—	$88,579,097
Credit risk transfer securities	—	628,942	—	628,942
Non-Agency mortgage-backed securities	—	1,066,343	—	1,066,343
Residential mortgage loans	—	1,535,685	—	1,535,685
Mortgage servicing rights	—	—	596,378	596,378
Commercial real estate debt investments	—	2,960,323	—	2,960,323
Interest rate swaps	—	69,109	—	69,109
Other derivatives	—	161,193	—	161,193
Total assets	$—	$95,000,692	$596,378	$95,597,070
Liabilities:				
Securitized debt of consolidated VIEs	$—	$2,904,873	$—	$2,904,873
Interest rate swaps	—	427,838	—	427,838
Other derivatives	122,436	30,667	—	153,103
Total liabilities	$122,436	$3,363,378	$—	$3,485,814

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
	(dollars in thousands)			
Assets:				
Agency mortgage-backed securities	$—	$90,551,763	$—	$90,551,763
Credit risk transfer securities	—	651,764	—	651,764
Non-Agency mortgage-backed securities	—	1,097,294	—	1,097,294
Residential mortgage loans	—	1,438,322	—	1,438,322
Mortgage servicing rights	—	—	580,860	580,860
Commercial real estate debt investments	—	3,089,108	—	3,089,108
Interest rate swaps	—	30,272	—	30,272
Other derivatives	218,361	65,252	—	283,613
Total assets	$218,361	$96,923,775	$580,860	$97,722,996
Liabilities:				
Securitized debt of consolidated VIEs	$—	$2,971,771	$—	$2,971,771
Interest rate swaps	—	569,129	—	569,129
Other derivatives	12,285	26,440	—	38,725
Total liabilities	$12,285	$3,567,340	$—	$3,579,625

Quantitative Information about Level 3 Fair Value Measurements

The Company considers unobservable inputs to be those for which market data is not available and that are developed using the best information available to us about the assumptions that market participants would use when pricing the asset. Relevant inputs vary depending on the nature of the instrument being measured at fair value. The following paragraph provides a general description of sensitivities of significant unobservable inputs along with interrelationships between and among the significant unobservable inputs and

their impact on the fair value measurements. The effect of a change in a particular assumption in the sensitivity analysis below is considered independently of changes in any other assumptions. In practice, simultaneous changes in assumptions may not always have a linear effect on the inputs discussed below. Interrelationships may also exist between observable and unobservable inputs. Such relationships have not been included in the discussion below. For each of the individual relationships described below, the inverse relationship would also generally apply. For MSRs, in general, increases in the discount, prepayment or delinquency rates or in annual servicing costs in isolation would result in a lower fair value measurement. A decline in interest rates could lead to higher-than-expected prepayments of mortgages underlying the Company's investments in MSRs, which in turn could result in a decline in the estimated fair value of MSRs. Refer to the Note titled "Mortgage Servicing Rights" for additional information.

The table below presents information about the significant unobservable inputs used for recurring fair value measurements for Level 3 MSRs. The table does not give effect to the Company's risk management practices that might offset risks inherent in these Level 3 investments.

	March 31, 2018		December 31, 2017	
Valuation Technique	Unobservable Input (1)	Range (Weighted Average)	Unobservable Input (1)	Range (Weighted Average)
Discounted cash flow	Discount rate	10.0% -15.0% (10.4%)	Discount rate	10.0% -15.0% (10.4%)
	Prepayment rate	4.5% - 13.3% (7.6%)	Prepayment rate	4.6% - 22.3% (9.4%)
	Delinquency rate	0.0% - 6.0% (2.3%)	Delinquency rate	0.0% - 13.0% (2.2%)
	Cost to service	$88 - $135 ($107)	Cost to service	$84 - $181 ($102)

(1) Represents rates, estimates and assumptions that the Company believes would be used by market participants when valuing these assets.

The following table summarizes the estimated fair values for financial assets and liabilities at March 31, 2018 and December 31, 2017.

		March 31, 2018		December 31, 2017	
	Level in Fair Value Hierarchy	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:		(dollars in thousands)			
Cash and cash equivalents	1	$984,275	$984,275	$706,589	$706,589
Agency mortgage-backed securities	2	88,579,097	88,579,097	90,551,763	90,551,763
Credit risk transfer securities	2	628,942	628,942	651,764	651,764
Non-Agency mortgage-backed securities	2	1,066,343	1,066,343	1,097,294	1,097,294
Residential mortgage loans	2	1,535,685	1,535,685	1,438,322	1,438,322
Mortgage servicing rights	3	596,378	596,378	580,860	580,860
Commercial real estate debt investments	2	2,960,323	2,960,323	3,089,108	3,089,108
Commercial real estate debt and preferred equity, held for investment	3	1,081,295	1,086,872	1,029,327	1,035,095
Corporate debt	2	1,152,745	1,159,443	1,011,275	1,014,139
Interest rate swaps	2	69,109	69,109	30,272	30,272
Other derivatives	1,2	161,193	161,193	283,613	283,613
Reverse repurchase agreements	1	200,459	200,459	—	—
Financial liabilities:					
Repurchase agreements	1,2	$78,015,431	$78,015,431	$77,696,343	$77,697,828
Other secured financing	1,2	3,830,075	3,829,693	3,837,528	3,837,595
Securitized debt of consolidated VIEs	2	2,904,873	2,904,873	2,971,771	2,971,771
Mortgage payable	3	309,794	304,179	309,686	310,218
Interest rate swaps	2	427,838	427,838	569,129	569,129
Other derivatives	1,2	153,103	153,103	38,725	38,725

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12. SECURED FINANCING

The Company had outstanding $78.0 billion and $77.7 billion of repurchase agreements with weighted average borrowing rates of 1.70% and 1.89%, after giving effect to the Company's interest rate swaps used to hedge cost of funds, and weighted average remaining maturities of 72 days and

58 days at March 31, 2018 and December 31, 2017, respectively.

At March 31, 2018 and December 31, 2017, the repurchase agreements had the following remaining maturities, collateral types and weighted average rates:

	March 31, 2018							
	Agency Mortgage-Backed Securities	CRTs	Non-Agency Mortgage-Backed Securities	Commercial Loans	Commercial Mortgage-Backed Securities	Total Repurchase Agreements	Weighted Average Rate	
	(dollars in thousands)							
1 day	$—	$—	$ —	$ —	$ —	$—	—	
2 to 29 days	38,894,346	326,985	281,627	—	24,220	39,527,178	1.76	%
30 to 59 days	8,619,507	—	—	—	—	8,619,507	1.67	%
60 to 89 days	10,215,074	—	27,972	—	—	10,243,046	1.83	%
90 to 119 days	5,378,231	—	—	—	—	5,378,231	1.63	%
Over 120 days (1)	13,856,340	—	—	391,129	—	14,247,469	2.19	%
Total	$76,963,498	$326,985	$ 309,599	$ 391,129	$ 24,220	$78,015,431	1.83	%

	December 31, 2017							
	Agency Mortgage-Backed Securities	CRTs	Non-Agency Mortgage-Backed Securities	Commercial Loans	Commercial Mortgage-Backed Securities	Total Repurchase Agreements	Weighted Average Rate	
	(dollars in thousands)							
1 day	$—	$—	$ —	$ —	$ —	$—	—	
2 to 29 days	33,421,609	263,528	253,290	—	18,125	33,956,552	1.69	%
30 to 59 days	10,811,515	7,229	3,658	—	6,375	10,828,777	1.44	%
60 to 89 days	13,800,743	7,214	47,830	—	—	13,855,787	1.59	%
90 to 119 days	10,128,006	—	—	—	—	10,128,006	1.39	%
Over 120 days (1)	8,542,108	—	—	385,113	—	8,927,221	1.77	%
Total	$76,703,981	$277,971	$ 304,778	$ 385,113	$ 24,500	$77,696,343	1.61	%

(1) Approximately 0% and 1% of the total repurchase agreements had a remaining maturity over 1 year at March 31, 2018 and December 31, 2017, respectively.

Repurchase agreements and reverse repurchase agreements with the same counterparty and the same maturity are presented net in the Consolidated Statements of Financial Condition when the terms of the agreements permit netting. The following table summarizes the gross amounts of reverse repurchase agreements and repurchase agreements, amounts offset in accordance with netting arrangements and net amounts of repurchase agreements and reverse repurchase agreements as presented in the Consolidated Statements of Financial Condition at March 31, 2018 and December 31, 2017. Refer to the "Derivative Instruments" Note for information related to the effect of netting arrangements on the Company's derivative instruments.

	March 31, 2018		December 31, 2017	
	Reverse Repurchase Agreements	Repurchase Agreements	Reverse Repurchase Agreements	Repurchase Agreements
	(dollars in thousands)			
Gross Amounts	$3,375,459	$81,190,431	$1,250,000	$78,946,343
Amounts Offset	(3,175,000)	(3,175,000)	(1,250,000)	(1,250,000)
Netted Amounts	$200,459	$78,015,431	$—	$77,696,343

The Company also finances a portion of its financial assets with advances from the Federal Home Loan Bank of Des Moines ("FHLB Des Moines"). Borrowings from FHLB Des Moines are reported in Other secured financing in the

Company's Consolidated Statements of Financial Condition. At March 31, 2018, $3.6 billion of the advances matures between one to three years. At December 31, 2017, $2.1 billion of advances from the FHLB Des Moines matured beyond three years and $1.4 billion matures between one to three years. The weighted average rate of the advances from the FHLB Des Moines was 2.05% and 1.49% at March 31, 2018 and December 31, 2017, respectively. The Company held $147.9 million of membership and activity-based stock in the FHLB Des Moines at March 31, 2018 and December 31, 2017, which is reported at cost and included in Other assets on the Company's Consolidated Statements of Financial Condition.

Investments pledged as collateral under secured financing arrangements and interest rate swaps had an estimated fair value and accrued interest of $87.6 billion and $275.2 million, respectively, at March 31, 2018 and $87.0 billion and $267.3 million, respectively, at December 31, 2017.

13. DERIVATIVE INSTRUMENTS

In connection with the Company's investment/market rate risk management strategy, the Company economically hedges a portion of its interest rate risk by entering into derivative financial instrument contracts, which include interest rate swaps, swaptions and futures contracts. The Company may also enter into TBA derivatives, MBS options and U.S. Treasury or Eurodollar futures contracts and certain

forward purchase commitments to economically hedge its exposure to market risks. The purpose of using derivatives is to manage overall portfolio risk with the potential to generate additional income for distribution to stockholders. These derivatives are subject to changes in market values resulting from changes in interest rates, volatility, Agency mortgage-backed security spreads to U.S. Treasuries and market liquidity. The use of derivatives also creates exposure to credit risk relating to potential losses that could be recognized if the counterparties to these instruments fail to perform their obligations under the stated contract. Additionally, the Company may have to pledge cash or assets as collateral for the derivative transactions, the amount of which may vary based on the market value and terms of the derivative contract. In the case of MAC interest rate swaps, the Company may make or receive a payment at the time of entering into such interest rate swap to compensate for the out of market nature of such interest rate swap. Similar to other interest rate swaps, the Company may have to pledge cash or assets as collateral for the MAC interest rate swap transactions. In the event of a default by the counterparty, the Company could have difficulty obtaining its Residential Investment Securities pledged as collateral as well as receiving payments in accordance with the terms of the derivative contracts.

The table below summarizes fair value information about our derivative assets and liabilities at March 31, 2018 and December 31, 2017:

Derivatives Instruments	Balance Sheet Location	March 31, 2018	December 31, 2017
Assets:		(dollars in thousands)	
Interest rate swaps	Interest rate swaps, at fair value	$69,109	$ 30,272
Interest rate swaptions	Other derivatives, at fair value	113,701	36,150
TBA derivatives	Other derivatives, at fair value	47,064	29,067
Futures contracts	Other derivatives, at fair value	—	218,361
Purchase commitments	Other derivatives, at fair value	428	35
		$230,302	$ 313,885
Liabilities:			
Interest rate swaps	Interest rate swaps, at fair value	$427,838	$ 569,129
TBA derivatives	Other derivatives, at fair value	21,855	21,776
Futures contracts	Other derivatives, at fair value	122,436	12,285
Purchase commitments	Other derivatives, at fair value	262	157

Credit derivatives [1]	Other derivatives, at fair value	8,550	4,507
		$580,941	$ 607,854

(1) The maximum potential amount of future payments is the notional amount of $285.0 million and $125.0 million at March 31, 2018 and December 31, 2017, respectively.

The following table summarizes certain characteristics of the Company's interest rate swaps at March 31, 2018 and December 31, 2017:

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

March 31, 2018

Maturity	Current Notional (1)	Weighted Average Pay Rate		Weighted Average Receive Rate		Weighted Average Years to Maturity
(dollars in thousands)						
0 - 3 years	$38,344,000	1.64	%	2.19	%	1.77
3 - 6 years	13,254,550	2.17	%	2.12	%	4.67
6 - 10 years	10,547,000	2.32	%	2.02	%	8.11
Greater than 10 years	3,826,400	3.65	%	1.94	%	18.22
Total / Weighted Average	$65,971,950	2.00	%	2.13	%	4.52

December 31, 2017

Maturity	Current Notional (1)	Weighted Average Pay Rate (2) (3)		Weighted Average Receive Rate (2)		Weighted Average Years to Maturity (2)
(dollars in thousands)						
0 - 3 years	$6,532,000	1.56	%	1.62	%	2.08
3 - 6 years	14,791,800	2.12	%	1.57	%	4.51
6 - 10 years	10,179,000	2.35	%	1.58	%	8.04
Greater than 10 years	3,826,400	3.65	%	1.51	%	18.47
Total / Weighted Average	$35,329,200	2.22	%	1.58	%	6.72

(1) There were no forward starting swaps at March 31, 2018. Notional amount includes $8.1 billion of forward starting pay fixed swaps at December 31, 2017.
(2) Excludes forward starting swaps.
(3) Weighted average fixed rate on forward starting pay fixed swaps was 1.86% at December 31, 2017.

The following table presents swaptions outstanding at March 31, 2018 and December 31, 2017.

March 31, 2018	Current Underlying Notional	Weighted Average Underlying Pay Rate		Weighted Average Underlying Receive Rate	Weighted Average Underlying Years to Maturity	Weighted Average Months to Expiration
(dollars in thousands)						
Long	$6,000,000	2.72	%	3M LIBOR	10.33	3.88

December 31, 2017	Current Underlying Notional	Weighted Average Underlying Pay Rate		Weighted Average Underlying Receive Rate	Weighted Average Underlying Years to Maturity	Weighted Average Months to Expiration
(dollars in thousands)						
Long	$6,000,000	2.62	%	3M LIBOR	9.97	4.49

The following table summarizes certain characteristics of the Company's TBA derivatives at March 31, 2018 and December 31, 2017:

March 31, 2018

Purchase and sale contracts for derivative TBAs	Notional	Implied Cost Basis	Implied Market Value	Net Carrying Value
(dollars in thousands)				
Purchase contracts	$8,954,000	$9,107,423	$9,132,632	$25,209

December 31, 2017

Purchase and sale contracts for derivative TBAs	Notional	Implied Cost Basis	Implied Market Value	Net Carrying Value
(dollars in thousands)				
Purchase contracts	$15,828,000	$16,381,826	$16,390,251	$8,425
Sale contracts	(250,000)	(254,804)	(255,938)	(1,134)
Net TBA derivatives	$15,578,000	$16,127,022	$16,134,313	$7,291

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

The following table summarizes certain characteristics of the Company's futures derivatives at March 31, 2018 and December 31, 2017:

	March 31, 2018		
	Notional - Long Positions	Notional - Short Positions	Weighted Average Years to Maturity
	(dollars in thousands)		
U.S. Treasury futures - 5 year	$—	$(4,597,400)	4.42
U.S. Treasury futures - 10 year and greater	—	(9,154,500)	6.99
Total	$—	$(13,751,900)	6.13

	December 31, 2017		
	Notional - Long Positions	Notional - Short Positions	Weighted Average Years to Maturity
	(dollars in thousands)		
2-year swap equivalent Eurodollar contracts	$—	$(17,161,000)	2.00
U.S. Treasury futures - 5 year	—	(4,217,400)	4.41
U.S. Treasury futures - 10 year and greater	—	(4,914,500)	7.01
Total	$—	$(26,292,900)	3.32

The Company presents derivative contracts on a gross basis on the Consolidated Statements of Financial Condition. Derivative contracts may contain legally enforceable provisions that allow for netting or setting off receivables and payables with each counterparty.

The following tables present information about derivative assets and liabilities that are subject to such provisions and can potentially be offset on our Consolidated Statements of Financial Condition at March 31, 2018 and December 31, 2017, respectively.

	March 31, 2018			
		Amounts Eligible for Offset		
	Gross Amounts	Financial Instruments	Cash Collateral	Net Amounts
Assets:	(dollars in thousands)			
Interest rate swaps, at fair value	$69,109	$(40,470)	$—	$28,639
Interest rate swaptions, at fair value	113,701	—	—	113,701
TBA derivatives, at fair value	47,064	(21,855)	—	25,209
Purchase commitments	428	—	—	428
Liabilities:				
Interest rate swaps, at fair value	$427,838	$(40,470)	$(6,856)	$380,512
TBA derivatives, at fair value	21,855	(21,855)	—	—

Futures contracts, at fair value	122,436	—	(122,436)	—
Purchase commitments	262	—	—	262
Credit derivatives	8,550	—	(6,460)	2,090

	December 31, 2017			
		Amounts Eligible for Offset		
	Gross Amounts	Financial Instruments	Cash Collateral	Net Amounts
Assets:	(dollars in thousands)			
Interest rate swaps, at fair value	$30,272	$(27,379)	$—	$2,893
Interest rate swaptions, at fair value	36,150	—	—	36,150
TBA derivatives, at fair value	29,067	(12,551)	—	16,516
Futures contracts, at fair value	218,361	(12,285)	—	206,076
Purchase commitments	35	—	—	35
Liabilities:				
Interest rate swaps, at fair value	$569,129	$(27,379)	$—	$541,750
TBA derivatives, at fair value	21,776	(12,551)	—	9,225
Futures contracts, at fair value	12,285	(12,285)	—	—
Purchase commitments	157	—	—	157
Credit derivatives	4,507	—	(3,520)	987

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

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

	Location on Consolidated Statements of Comprehensive Income (Loss)		
	Realized Gains (Losses) on Interest Rate Swaps (1)	Realized Gains (Losses) on Termination or Maturity of Interest Rate Swaps	Unrealized Gains (Losses) on Interest Rate Swaps
	(dollars in thousands)		
Three Months Ended:			
March 31, 2018	$(48,160)	$ 834	$ 977,285
March 31, 2017	$(104,156)	$ —	$ 149,184

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

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

Three Months Ended March 31, 2018

Derivative Instruments	Realized Gain (Loss)	Unrealized Gain (Loss)	Amount of Gain/(Loss) Recognized in Net Gains (Losses) on Trading Assets
(dollars in thousands)			
Net TBA derivatives	$(277,901)	$ 17,917	$(259,984)
Net interest rate swaptions	(21,434)	67,221	45,787
Futures	495,013	(328,512)	166,501
Purchase commitments	—	366	366

252

832

—

7,899

197,243

197,381

121,061

266,629

(578,871
)

203,443

Deferred Tax Liability

—

—

58,463

122,950

(47,646
)

133,767

Derivative Liability

19,451

12,949

—

—

—

32,400

Other Liabilities

—

4,090

—

—

—

4,090

Intercompany Note Payable

—

—

—

93,845

(93,845
)

—

Long-Term Debt:

Term debt

1,140,179

1,140,179

1,140,179

—

(2,280,358
)

1,140,179

Notes

400,279

400,279

400,279

—

(800,558
)

400,279

1,540,458

1,540,458

1,540,458

—

(3,080,916
)

1,540,458

Equity

141,800

233,345

61,154

1,044,437

(1,338,936
)

141,800

$
1,898,952

$

1,988,223

$
1,781,136

$
1,527,861

$
(5,140,214
)

$
2,055,958

53

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CEDAR FAIR, L.P.
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME
For the Year Ended December 31, 2012
(In thousands)

	Cedar Fair L.P. (Parent)	Co-Issuer Subsidiary (Magnum)	Co-Issuer Subsidiary (Cedar Canada)	Guarantor Subsidiaries	Eliminations	Total
Net revenues	$145,715	$258,136	$140,418	$ 927,668	$ (403,483)	$1,068,454
Costs and expenses:						
Cost of food, merchandise and games revenues	—	—	10,316	84,732	—	95,048
Operating expenses	5,380	176,356	47,863	625,287	(403,483)	451,403
Selling, general and administrative	6,495	86,615	11,135	34,066	—	138,311
Depreciation and amortization	37,660	40	18,199	71,440	—	127,339
Loss on impairment / retirement of fixed assets, net	25,997	—	6	4,333	—	30,336
Gain on sale of other assets	(862)	—	—	(5,763)	—	(6,625)
	74,670	263,011	87,519	814,095	(403,483)	835,812
Operating income (loss)	71,045	(4,875)	52,899	113,573	—	232,642
Interest expense, net	48,524	29,328	40,870	(8,171)	—	110,551
Net effect of swaps	(138)	121	(1,475)	—	—	(1,492)
Unrealized / realized foreign currency gain	—	—	(8,998)	—	—	(8,998)
Other (income) expense	749	(9,507)	2,020	6,738	—	—
(Income) loss from investment in affiliates	(89,381)	(65,509)	(14,170)	(31,333)	200,393	—
Income (loss) before taxes	111,291	40,692	34,652	146,339	(200,393)	132,581
Provision (benefit) for taxes	10,075	(9,856)	3,413	27,733	—	31,365
Net income	$101,216	$50,548	$31,239	$ 118,606	$ (200,393)	$101,216
Other comprehensive income (loss), (net of tax):						
Cumulative foreign currency translation adjustment	369	—	369	—	(369)	369
Unrealized income on cash flow hedging derivatives	139	114	21	—	(135)	139
Other comprehensive income, (net of tax)	508	114	390	—	(504)	508
Total Comprehensive Income	$101,724	$50,662	$31,629	$ 118,606	$ (200,897)	$101,724

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CEDAR FAIR, L.P.
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME
For the Year Ended December 31, 2011
(In thousands)

	Cedar Fair L.P. (Parent)	Co-Issuer Subsidiary (Magnum)	Co-Issuer Subsidiary (Cedar Canada)	Guarantor Subsidiaries	Eliminations	Total
Net revenues	$141,149	$251,064	$126,972	$ 901,120	$ (391,833)	$1,028,472
Costs and expenses:						
Cost of food, merchandise and games revenues	—	—	9,932	82,125	—	92,057
Operating expenses	5,491	165,409	45,765	606,019	(391,833)	430,851
Selling, general and administrative	10,073	84,270	11,314	34,769	—	140,426
Depreciation and amortization	37,283	47	17,325	71,182	—	125,837
Loss on impairment / retirement of fixed assets, net	990	—	(61)	1,636	—	2,565
	53,837	249,726	84,275	795,731	(391,833)	791,736
Operating income	87,312	1,338	42,697	105,389	—	236,736
Interest expense, net	84,391	15,030	52,814	4,793	—	157,028
Net effect of swaps	(12,214)	718	(1,623)	—	—	(13,119)
Unrealized / realized foreign currency loss	—	—	9,909	—	—	9,909
Other (income) expense	1,705	(7,798)	2,349	4,699	—	955
(Income) loss from investment in affiliates	(65,701)	(17,362)	(10,520)	11,998	81,585	—
Income (loss) before taxes	79,131	10,750	(10,232)	83,899	(81,585)	81,963
Provision (benefit) for taxes	8,385	(23,000)	2,970	22,862	—	11,217
Net income (loss)	$70,746	$33,750	$(13,202)	$ 61,037	$ (81,585)	$70,746
Other comprehensive income (loss), (net of tax):						
Cumulative foreign currency translation adjustment	933	—	933	—	(933)	933
Unrealized income (loss) on cash flow hedging derivatives	3,767	(9,499)	291	—	9,208	3,767
Other comprehensive income (loss), (net of tax)	4,700	(9,499)	1,224	—	8,275	4,700
Total Comprehensive Income	$75,446	$24,251	$(11,978)	$ 61,037	$ (73,310)	$75,446

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CEDAR FAIR, L.P.
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME
For the Year Ended December 31, 2010
(In thousands)

	Cedar Fair L.P. (Parent)	Co-Issuer Subsidiary (Magnum)	Co-Issuer Subsidiary (Cedar Canada)	Guarantor Subsidiaries	Eliminations	Total
Net revenues	$136,386	$245,983	$113,513	$ 863,677	$ (381,967)	$977,592
Costs and expenses:						
Cost of food, merchandise and games revenues	—	—	8,917	77,702	—	86,619
Operating expenses	5,534	164,750	42,551	580,534	(381,967)	411,402
Selling, general and administrative	15,093	71,454	10,839	36,615	—	134,001
Depreciation and amortization	36,158	95	16,246	76,357	—	128,856
Loss on impairment of goodwill and other intangibles	—	—	—	2,293	—	2,293
Loss on impairment / retirement of fixed assets, net	732	—	20	62,000	—	62,752
	57,517	236,299	78,573	835,501	(381,967)	825,923
Operating income	78,869	9,684	34,940	28,176	—	151,669
Interest expense, net	85,313	31,460	31,835	523	—	149,131
Net effect of swaps	10,508	—	7,686	—	—	18,194
Loss on early extinguishment of debt	24,831	—	10,458	—	—	35,289
Unrealized / realized foreign currency loss	—	(3,079)	(17,484)	—	—	(20,563)
Other (income) expense	750	(6,123)	1,811	3,562	—	—
(Income) loss from investment in affiliates	(17,498)	993	2,461	2,215	11,829	—
Income (loss) before taxes	(25,035)	(13,567)	(1,827)	21,876	(11,829)	(30,382)
Provision (benefit) for taxes	8,017	(320)	456	(5,483)	—	2,670
Net income (loss)	$(33,052)	$(13,247)	$(2,283)	$ 27,359	$ (11,829)	$(33,052)
Other comprehensive income (loss), (net of tax):						
Cumulative foreign currency translation adjustment	(6,475)	—	(6,475)	—	6,475	(6,475)
Unrealized income on cash flow hedging derivatives	60,048	1,916	8,906	—	(10,822)	60,048
Other comprehensive income, (net of tax)	53,573	1,916	2,431	—	(4,347)	53,573
Total Comprehensive Income	$20,521	$(11,331)	$148	$ 27,359	$ (16,176)	$20,521

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CEDAR FAIR, L.P.
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2012
(In thousands)

	Cedar Fair L.P. (Parent)	Co-Issuer Subsidiary (Magnum)	Co-Issuer Subsidiary (Cedar Canada)	Guarantor Subsidiaries	Eliminations	Total
NET CASH FROM (FOR) OPERATING ACTIVITIES	$129,402	$30,355	$20,829	$ 143,062	$ (37,715)	$285,933
CASH FLOWS FROM (FOR) INVESTING ACTIVITIES						
Investment in joint ventures and affiliates	31,496	(55,458)	2,599	(16,352)	37,715	—
Sale of other assets	1,173	—	—	14,885	—	16,058
Capital expenditures	(33,664)	(8)	(14,551)	(48,009)	—	(96,232)
Net cash for investing activities	(995)	(55,466)	(11,952)	(49,476)	37,715	(80,174)
CASH FLOWS FROM (FOR) FINANCING ACTIVITIES						
Term debt payments, including early termination penalties	(14,468)	(10,212)	(320)	—	—	(25,000)
Derivative settlement	—	—	(50,450)	—	—	(50,450)
Intercompany (payments) receipts	—	93,845	—	(93,845)	—	—
Distributions (paid) received	(88,939)	126	—	—	—	(88,813)
Capital (contribution) infusion	—	(60,000)	60,000	—	—	—
Exercise of limited partnership unit options	—	76	—	—	—	76
Excess tax benefit from unit-based compensation expense	—	1,208	—	—	—	1,208
Net cash from (for) financing activities	(103,407)	25,043	9,230	(93,845)	—	(162,979)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	—	—	526	—	—	526
CASH AND CASH EQUIVALENTS						
Net increase (decrease) for the year	25,000	(68)	18,633	(259)	—	43,306
Balance, beginning of year	—	512	31,540	3,472	—	35,524
Balance, end of year	$25,000	$444	$50,173	$ 3,213	$ —	$78,830

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CEDAR FAIR, L.P.
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2011
(In thousands)

	Cedar Fair L.P. (Parent)	Co-Issuer Subsidiary (Magnum)	Co-Issuer Subsidiary (Cedar Canada)	Guarantor Subsidiaries	Eliminations	Total
NET CASH FROM (FOR) OPERATING ACTIVITIES	$147,385	$(149,801)	$51,510	$ 187,328	$ (18,245)	$218,177
CASH FLOWS FROM (FOR) INVESTING ACTIVITIES						
Investment in joint ventures and affiliates	(14,404)	(18,973)	(4,989)	20,121	18,245	—
Capital expenditures	(41,851)	—	(19,344)	(28,995)	—	(90,190)
Net cash from (for) investing activities	(56,255)	(18,973)	(24,333)	(8,874)	18,245	(90,190)
CASH FLOWS FROM (FOR) FINANCING ACTIVITIES						
Net payments on revolving credit loans	(23,200)	—	—	—	—	(23,200)
Term debt borrowings	13,246	9,357	335	—	—	22,938
Intercompany term debt (payments) receipts	—	176,343	—	(176,343)	—	—
Term debt payments, including early termination penalties	(13,831)	(9,763)	(306)	—	—	(23,900)
Distributions (paid) received	(55,562)	215	—	—	—	(55,347)
Payment of debt issuance costs	(11,783)	(8,332)	(1,099)	—	—	(21,214)
Exercise of limited partnership unit options	—	5	—	—	—	5
Net cash from (for) financing activities	(91,130)	167,825	(1,070)	(176,343)	—	(100,718)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	—	—	(1,510)	—	—	(1,510)
CASH AND CASH EQUIVALENTS						
Net increase (decrease) for the year	—	(949)	24,597	2,111	—	25,759
Balance, beginning of year	—	1,461	6,943	1,361	—	9,765
Balance, end of year	$—	$512	$31,540	$ 3,472	$ —	$35,524

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CEDAR FAIR, L.P.
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2010
(In thousands)

	Cedar Fair L.P. (Parent)	Co-Issuer Subsidiary (Magnum)	Co-Issuer Subsidiary (Cedar Canada)	Guarantor Subsidiaries	Eliminations	Total
NET CASH FROM (FOR) OPERATING ACTIVITIES	$82,230	$(62,109)	$(3,649)	$41,710	$123,933	$182,115
CASH FLOWS FROM (FOR) INVESTING ACTIVITIES						
Investment in joint ventures and affiliates	14,840	222,495	(113,173)	(229)	(123,933)	—
Capital expenditures	(26,165)	—	(7,433)	(38,108)	—	(71,706)
Net cash from (for) investing activities	(11,325)	222,495	(120,606)	(38,337)	(123,933)	(71,706)
CASH FLOWS FROM (FOR) FINANCING ACTIVITIES						
Net borrowings (payments) on revolving credit loans	(63,100)	—	—	—	—	(63,100)
Term debt borrowings	680,000	480,000	15,000	—	—	1,175,000
Note borrowings	—	—	399,383	—	—	399,383
Intercompany term debt (payments) receipts	699,625	(696,875)	—	(2,750)	—	—
Term debt payments, including early termination penalties	(1,351,464)	(7,327)	(208,099)	—	—	(1,566,890)
Distributions (paid) received	(13,891)	57	—	—	—	(13,834)
Return of capital	—	75,247	(75,247)	—	—	—
Payment of debt issuance costs	(22,075)	(11,277)	(9,912)	—	—	(43,264)
Exercise of limited partnership unit options	—	7	—	—	—	7
Net cash from (for) financing activities	(70,905)	(160,168)	121,125	(2,750)	—	(112,698)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	—	—	126	—	—	126
CASH AND CASH EQUIVALENTS						
Net increase (decrease) for the year	—	218	(3,004)	623	—	(2,163)
Balance, beginning of year	—	1,243	9,947	738	—	11,928
Balance, end of year	$—	$1,461	$6,943	$1,361	$—	$9,765

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

The Partnership maintains a system of controls and procedures designed to ensure that information required to be disclosed by the Partnership in its reports under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified by the Commission and that such information is accumulated and communicated to the Partnership's management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. As of December 31, 2012, the Partnership has evaluated the effectiveness of the design and operation of its disclosure controls and procedures under supervision of management, including the Partnership's Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Partnership's disclosure controls and procedures are effective.

Management's Report on Internal Control over Financial Reporting

The Partnership's management is responsible for establishing and maintaining adequate internal controls over financial reporting, as defined in Rule 13a or 15(f) under the Exchange Act. The Partnership's internal control system over financial reporting is a process designed to provide reasonable assurance to management and the General Partner's board of directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Management assessed the effectiveness of the Partnership's internal control over financial reporting as of December 31, 2012. In making this assessment, it used the criteria described in “Internal Control - Integrated Framework” issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. As a result of its assessment, management concluded that, as of December 31, 2012, the Partnership's internal control over financial reporting was effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Deloitte & Touche LLP, an independent registered public accounting firm, has issued an attestation report on the effectiveness of internal control over financial reporting.

Changes in Internal Control over Financial Reporting

There were no changes in the Partnership's internal controls over financial reporting that occurred during the fourth quarter of 2012 that have materially affected, or are reasonably likely to materially affect, the Partnership's internal controls over financial reporting.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To the Board of Directors and Unitholders of Cedar Fair, L.P.
Sandusky, Ohio

We have audited the internal control over financial reporting of Cedar Fair, L.P. and subsidiaries (the "Partnership") as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Partnership's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Partnership's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Partnership maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2012 of the Partnership and our report dated February 25, 2013 expressed an unqualified opinion on those financial statements.

/s/ DELOITTE & TOUCHE LLP
Cleveland, Ohio
February 25, 2013

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ITEM 9B. OTHER INFORMATION.

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Cedar Fair Management, Inc., an Ohio corporation owned by an Ohio trust, is the General Partner of the Partnership and has full responsibility for the management of the Partnership. For additional information, attention is directed to Note 1 in “Notes to Consolidated Financial Statements” on page 33 of this Report.

A. Identification of Directors:

The information required by this item is incorporated by reference to the material in our Proxy Statement to be used in connection with the annual meeting of limited partner unitholders to be held in June 2013 (the “Proxy Statement”) under the captions “Proposal One. Election of Directors,” “Board Committees” and “Section 16(a) Beneficial Ownership Reporting Compliance.”

B. Identification of Executive Officers:

Information regarding executive officers of the Partnership is included in this Annual Report on Form 10-K under the caption “Supplemental Item. Executive Officers of Cedar Fair” in Item I of Part I and is incorporated herein by reference.

C. Code of Ethics and Certifications:

In accordance with Section 406 of the Sarbanes-Oxley Act of 2002 and Item 406 of Regulation S-K, the Partnership has adopted a Code of Conduct and Ethics (the “Code”), which applies to all directors, officers and employees of the Partnership, including the Chief Executive Officer and the Chief Financial Officer and Chief Accounting Officer. A copy of the Code is available on the Internet at the Investor Relations section of our web site (www.cedarfair.com).

The Partnership submitted an unqualified Section 303A.12(a) Chief Executive Officer certification to the New York Stock Exchange on July 27, 2012, stating that the Partnership was in compliance with the NYSE's Corporate Governance Listing Standards. The Chief Executive Officer and Chief Financial Officer certifications under Section 302 of the Sarbanes-Oxley Act are included as exhibits to this Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this item is incorporated by reference to the material in our Proxy Statement under the captions “Executive Compensation,” “Compensation Committee Interlocks and Insider Participation,” and “Compensation Committee Report.”

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED UNITHOLDER MATTERS.

The information required by this item is incorporated by reference to the material in our Proxy Statement under the caption "Security Ownership of Certain Beneficial Owners and Management."

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EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth information concerning units authorized or available for issuance under our equity compensation plans as of December 31, 2012.

Plan Category	Number of units to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of units remaining available for future issuance under equity compensation plans (excluding units reflected in column (a)) (c)
Equity compensation plans approved by unitholders	722,786	$29.45	2,062,236
Equity compensation plans not approved by unitholders	—	—	—
Total	722,786	$29.45	2,062,236

Attention is directed to Note 7 in "Notes to Consolidated Financial Statements" for additional information regarding the Partnership's equity incentive plans.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information required by this item is incorporated by reference to the material in our Proxy Statement under the captions "Certain Relationships and Related Transactions," "Board of Directors," and "Board Committees."

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The information required by this item is incorporated by reference to the material in our Proxy Statement under the caption "Independent Registered Public Accounting Firm Services and Fees."

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

A. 1. Financial Statements

The following consolidated financial statements of the Registrant, the notes thereto and the related Report of Independent Registered Public Accounting Firm are filed under Item 8 of this Report:

A. 2. Financial Statement Schedules

All Schedules are omitted, as the information is not required or is otherwise furnished.

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A. 3. Exhibits

The exhibits listed below are incorporated herein by reference to prior SEC filings by Registrant or are included as exhibits in this Form 10-K.

Exhibit Number	Description
2.1	Asset Purchase Agreement between Cedar Fair, L.P. and Six Flags, Inc., Funtime, Inc., Aurora Campground, Inc., Ohio Campgrounds Inc., and Ohio Hotel LLC, dated April 8, 2004. Incorporated herein by reference to Exhibit 2 to the Registrant's Form 8-K (File No. 001-09444) filed on April 23, 2004.
2.2	Stock Purchase Agreement between Cedar Fair, L.P. and CBS Corporation, dated May 22, 2006. Incorporated herein by reference to Exhibit 2.1 to the Registrant's Form 8-K (File No. 001-09444) filed on July 7, 2006.
2.3	Amendment No. 1 to the Stock Purchase Agreement between Cedar Fair, L.P. and CBS Corporation, dated June 30, 2006. Incorporated herein by reference to Exhibit 2.2 to the Registrant's Form 8-K (File No. 001-09444) filed on July 7, 2006.
2.4	Agreement and Plan of Merger, dated as of December 16, 2009, by and among Siddur Holdings, Ltd., Siddur Merger Sub, LLC, Cedar Fair Management, Inc. and Cedar Fair, L.P., dated as of December 16, 2009. Incorporated herein by reference to Exhibit 2.1 to the Registrant's Form 8-K filed on December 17, 2009.
2.5	Termination and Settlement Agreement among Cedar Fair, L.P. and its affiliates, and the Apollo Parties thereto, dated April 5, 2010. Incorporated herein by reference to Exhibit 2.1 to the Registrant's Form 8-K filed on April 6, 2010.
3.1	Sixth Amended and Restated Agreement of Limited Partnership of Cedar Fair, L.P. Incorporated herein by reference to Exhibit 3.1 to the Registrant's Form 10-Q (File No. 001-9444) filed November 4, 2011.
3.2	Regulations of Cedar Fair Management Inc. Incorporated herein by reference to Exhibit 3.2 to the Registrant's Form 10-Q filed November 4, 2011.
4.1	Rights Agreement between Cedar Fair, L.P. and American Stock Transfer and Trust Co., LLC, dated April 5, 2010. Incorporated herein by reference to Exhibit 4.1 to the Registrant's Form 8-K filed on April 6, 2010.
4.2	Indenture, by and among Cedar Fair, L.P., Canada's Wonderland Company, and Magnum Management Corporation, as issuers, the guarantors named therein, and The Bank of New York Mellon, as trustee, dated as of July 29, 2010 (including form of 9.125% Senior Notes due 2018). Incorporated herein by reference to Exhibit 4.1 to the Registrant's Form 8-K filed on July 29, 2010.
4.3	Registration Rights Agreement, among Cedar Fair, L.P., Canada's Wonderland Company, and Magnum Management Corporation, as issuers, the guarantors named therein, and J.P. Morgan Securities Inc., as representative of the initial purchasers named therein, dated July 29, 2010. Incorporated herein by reference to Exhibit 4.2 to the Registrant's Form 8-K filed on July 29, 2010.
10.1	Cedar Fair, L.P. Amended and Restated Executive Severance Plan dated July 18, 2007. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q (File No. 001-09444) filed on August 3, 2007.
10.2	Cedar Fair, L.P. Amended and Restated 2000 Equity Incentive Plan dated July 18, 2007. Incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q (File No. 001-09444) filed on August 3, 2007.
10.3	Cedar Fair, L.P. Amended and Restated 2000 Senior Executive Management Incentive Plan dated July 18, 2007. Incorporated herein by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q

	(File No. 001-09444) filed on August 3, 2007.
10.4	Cedar Fair, L.P. Amended and Restated Senior Management Long-Term Incentive Compensation Plan dated July 18, 2007. Incorporated herein by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q (File No. 001-09444) filed on August 3, 2007.
10.5	Cedar Fair, L.P. Amended and Restated Supplemental Retirement Program dated July 18, 2007. Incorporated herein by reference to Exhibit 10.5 to the Registrants Quarterly Report on Form 10-Q (File No. 001-09444) filed on August 3, 2007.
10.6	Cedar Fair, L.P. 2008 Supplemental Retirement Program dated February 4, 2008. Incorporated herein by reference to Exhibit 10.5 to the Registrant's Annual Report on Form 10-K filed on February 29, 2008.
10.7	2007 Amended and Restated Employment Agreement with Richard L. Kinzel. Incorporated herein by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q (File No. 001-09444) filed on August 3, 2007.
10.8	Amendment to the 2007 Amended and Restated Employment Agreement with Richard L. Kinzel dated January 24, 2011. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed on May 6, 2011.
10.9	Employment Agreement with Matthew A. Ouimet, dated June 20, 2011. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on June 24, 2011.

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Exhibit Number	Description
10.10	2011 Amended and Restated Employment Agreement with Richard A. Zimmerman dated June 27, 2011. Incorporated herein by reference to Exhibit 10.3 to the Registrant's Form 8-K filed June 28, 2011.
10.11	Employment Agreement with Richard A. Zimmerman, dated October 14, 2011. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on October 18, 2011.
10.12	2011 Amended and Restated Employment Agreement with Robert A. Decker dated June 27, 2011. Incorporated herein by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q filed on August 5, 2011.
10.13	2011 Amended and Restated Employment Agreement with H. Philip Bender dated June 27, 2011. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Form 8-K filed June 28, 2011.
10.14	Amended and Restated Credit Agreement dated as of February 15, 2007 among Cedar Fair, L.P. and Subsidiaries as co-borrowers, and several banks and certain "Lenders" party thereto. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Form 8-K (File No. 001-09444) filed on February 21, 2007.
10.15	Amendment No. 1 dated August 12, 2009 to the Amended and Restated Credit Agreement dated as of February 15, 2007. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on August 14,2009.
10.16	Credit Agreement Waiver, dated January 26, 2010, to the Amended and Restated Credit Agreement, dated February 15, 2007. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on January 28, 2010.
10.17	Cedar Fair, L.P. 2008 Omnibus Incentive Plan dated as of May 15, 2008. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on May 20, 2008.
10.18	Cedar Fair, L.P. 2008 Omnibus Incentive Plan Long-Term Incentive Award Agreement. Incorporated herein by reference to Exhibit 10.13 to the Registrant's Form 10-K filed on March 2, 2009.
10.19	Cedar Fair, L.P. 2008 Omnibus Incentive Plan 2008-2011 Performance Award Agreement. Incorporated herein by reference to Exhibit 10.13 to the Registrant's Form 10-K filed on March 2, 2009.
10.20	Cedar Fair, L.P. 2008 Omnibus Incentive Plan Form of Restricted Phantom Unit Award Agreement, Incorporated herein by reference to Exhibit 10 to the Registrant's Form 10-Q filed on May 8, 2009
10.21	Letter Agreement between Cedar Fair, L.P., Cedar Fair Management, Inc., Q Funding III, L.P. and Q4 Funding, L.P., dated May 4, 2010. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on May 5, 2010.
10.22	Credit Agreement, among Cedar Fair, L.P., Magnum Management Corporation and Canada's Wonderland Company as borrowers, the several lenders from time to time party thereto, Keybank National Association, Wells Fargo Bank, N.A., UBS Loan Finance LLC and Fifth Third Bank as co-syndication agents and JPMorgan Chase Bank, N.A. as administrative agent and collateral agent, dated July 29, 2010. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on July 29, 2010.
10.23	Amendment No. 1, dated February 25, 2011, to Credit Agreement, among Cedar Fair, L.P.,Magnum Management Corporation and Canada's Wonderland Company as borrowers, the several lenders from time to time party thereto, KeyBank National Association, Wells Fargo Bank, N.A., UBS Loan Finance, LLC and Fifth Third Bank as co-syndication agents and JPMorgan Chase Bank, N.A. as administrative agent and collateral agent. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on March 3, 2011.
10.24	Form of Indemnification Agreement. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Form 8-K filed November 1, 2011.
10.25	

	2008 Omnibus Incentive Plan Form of Restricted Unit Award Agreement. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Form 8-K filed March 28, 2012.
10.26	2008 Omnibus Incentive Plan Form of Option Award Agreement. Incorporated herein by reference to Exhibit 10.2 to the Registrant's Form 8-K filed March 28, 2012.
10.27	2008 Omnibus Incentive Plan Form of Performance Award Agreement. Incorporated herein by reference to Exhibit 10.3 to the Registrant's Form 8-K filed March 28, 2012.
10.28	Amended and Restated Employment Agreement, by and among Cedar Fair, L.P., Cedar Fair Management, Inc., Magnum Management Corporation and David Hoffman, dated April 24, 2012. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Form 8-K filed April 27, 2012.
10.29	Employment Agreement by and between Cedar Fair, L.P., Cedar Fair Management, Inc., Magnum Corporation and Brian Witherow, dated December 4, 2012. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Form 8-K filed December 7, 2012.
10.30	Employment Agreement by and between Cedar Fair, L.P., Cedar Fair Management, Inc., Magnum Corporation and Kelley Semmelroth, dated December 4, 2012. Incorporated herein by reference to Exhibit 10.2 to the Registrant's Form 8-K filed December 7, 2012.
10.31	Amended and Restated Employment Agreement by and between Cedar Fair, L.P., Cedar Fair Management, Inc., Magnum Management Corporation and Matthew A. Ouimet, dated December 4, 2012. Incorporated herein by reference to Exhibit 10.3 to the Registrant's Form 8-K filed December 7, 2012.
10.32	Amended and Restated Employment Agreement by and between Cedar Fair, L.P., Cedar Fair Management, Inc., Magnum Management Corporation and Richard Zimmerman, dated December 4, 2012. Incorporated herein by reference to Exhibit 10.4 to the Registrant's Form 8-K filed December 7, 2012.

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Exhibit Number	Description
10.33	Amended and Restated Employment Agreement by and between Cedar Fair, L.P., Cedar Fair Management, Inc., Magnum Management Corporation and H. Phillip Bender, dated December 4, 2012. Incorporated herein by reference to Exhibit 10.5 to the Registrant's Form 8-K filed December 7, 2012.
21	Subsidiaries of Cedar Fair, L.P.
23	Consent of Independent Registered Public Accounting Firm
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from the Company’s Annual Report on Form 10-K for the year ended December 31, 2012 formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Statements of Operations and Comprehensive Income, (ii) the Consolidated Balance Sheets, (iii) the Consolidated Statements of Cash Flows, (iv) the Consolidated Statements of Partners' Equity and, (v) related notes.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CEDAR FAIR, L.P.
(Registrant)

DATED: February 25, 2013 By: Cedar Fair Management, Inc.
General Partner

/S/ Matthew A. Ouimet
Matthew A. Ouimet
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

	Signature	Title	Date
/S/	Matthew A. Ouimet Matthew A. Ouimet	President and Chief Executive Officer Director	February 25, 2013
/S/	Brian C. Witherow Brian C. Witherow	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 25, 2013
/S/	David R. Hoffman David R. Hoffman	Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)	February 25, 2013
/S/	Eric L. Affeldt Eric L. Affeldt	Chairman	February 25, 2013
/S/	Gina D. France Gina D. France	Director	February 25, 2013
/S/	Daniel J. Hanrahan Daniel J. Hanrahan	Director	February 25, 2013
/S/	Richard L. Kinzel Richard L. Kinzel	Director	February 25, 2013
/S/	Tom Klein Tom Klein	Director	February 25, 2013
/S/	Debra Smithart-Oglesby Debra Smithart-Oglesby	Director	February 25, 2013
/S/	John M. Scott III	Director	February 25, 2013

	John M. Scott III		
/S/	Lauri M. Shanahan	Director	February 25, 2013
	Lauri M. Shanahan		

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EXHIBIT INDEX

Exhibit Number	Description	Page
2.1	Asset Purchase Agreement between Cedar Fair, L.P. and Six Flags, Inc., Funtime, Inc., Aurora Campground, Inc., Ohio Campgrounds Inc., and Ohio Hotel LLC, dated April 8, 2004. Incorporated herein by reference to Exhibit 2 to the Registrant's Form 8-K (File No. 001-09444) filed on April 23, 2004.	*
2.2	Stock Purchase Agreement between Cedar Fair, L.P. and CBS Corporation, dated May 22, 2006. Incorporated herein by reference to Exhibit 2.1 to the Registrant's Form 8-K (File No. 001-09444) filed on July 7, 2006.	*
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2.4	Agreement and Plan of Merger, dated as of December 16, 2009, by and among Siddur Holdings, Ltd., Siddur Merger Sub, LLC, Cedar Fair Management, Inc. and Cedar Fair, L.P., dated as of December 16, 2009. Incorporated herein by reference to Exhibit 2.1 to the Registrant's Form 8-K filed on December 17, 2009.	*
2.5	Termination and Settlement Agreement among Cedar Fair, L.P. and its affiliates, and the Apollo Parties thereto, dated April 5, 2010. Incorporated herein by reference to Exhibit 2.1 to the Registrant's Form 8-K filed on April 6, 2010.	*
3.1	Sixth Amended and Restated Agreement of Limited Partnership of Cedar Fair, L.P. Incorporated herein by reference to Exhibit 3.1 to the Registrant's Form 10-Q (File No. 001-9444) filed November 4, 2011.	*
3.2	Regulations of Cedar Fair Management Inc. Incorporated herein by reference to Exhibit 3.2 to the Registrant's Form 10-Q filed November 4, 2011.	*
4.1	Rights Agreement between Cedar Fair, L.P. and American Stock Transfer and Trust Co., LLC, dated April 5, 2010. Incorporated herein by reference to Exhibit 4.1 to the Registrant's Form 8-K filed on April 6, 2010.	*
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4.3	Registration Rights Agreement, among Cedar Fair, L.P., Canada's Wonderland Company, and Magnum Management Corporation, as issuers, the guarantors named therein, and J.P. Morgan Securities Inc., as representative of the initial purchasers named therein, dated July 29, 2010. Incorporated herein by reference to Exhibit 4.2 to the Registrant's Form 8-K filed on July 29, 2010.	*
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10.2		*

	Cedar Fair, L.P. Amended and Restated 2000 Equity Incentive Plan dated July 18, 2007. Incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q (File No. 001-09444) filed on August 3, 2007.	
10.3	Cedar Fair, L.P. Amended and Restated 2000 Senior Executive Management Incentive Plan dated July 18, 2007. Incorporated herein by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q (File No. 001-09444) filed on August 3, 2007.	*
10.4	Cedar Fair, L.P. Amended and Restated Senior Management Long-Term Incentive Compensation Plan dated July 18, 2007. Incorporated herein by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q (File No. 001-09444) filed on August 3, 2007.	*
10.5	Cedar Fair, L.P. Amended and Restated Supplemental Retirement Program dated July 18, 2007. Incorporated herein by reference to Exhibit 10.5 to the Registrants Quarterly Report on Form 10-Q (File No. 001-09444) filed on August 3, 2007.	*
10.6	Cedar Fair, L.P. 2008 Supplemental Retirement Program dated February 4, 2008. Incorporated herein by reference to Exhibit 10.5 to the Registrant's Annual Report on Form 10-K filed on February 29, 2008.	*
10.7	2007 Amended and Restated Employment Agreement with Richard L. Kinzel. Incorporated herein by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q (File No. 001-09444) filed on August 3, 2007.	*
10.8	Amendment to the 2007 Amended and Restated Employment Agreement with Richard L. Kinzel dated January 24, 2011. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed on May 6, 2011.	

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EXHIBIT INDEX (continued)

Exhibit Number	Description	Page
10.8	Amendment to the 2007 Amended and Restated Employment Agreement with Richard L. Kinzel dated January 24, 2011. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed on May 6, 2011.	*
10.9	Employment Agreement with Matthew A. Ouimet, dated June 20, 2011. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on June 24, 2011.	*
10.10	2011 Amended and Restated Employment Agreement with Richard A. Zimmerman dated June 27, 2011. Incorporated herein by reference to Exhibit 10.3 to the Registrant's Form 8-K filed June 28, 2011.	*
10.11	Employment Agreement with Richard A. Zimmerman, dated October 14, 2011. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on October 18, 2011.	*
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10.13	2011 Amended and Restated Employment Agreement with H. Philip Bender dated June 27, 2011. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Form 8-K filed June 28, 2011.	*
10.14	Amended and Restated Credit Agreement dated as of February 15, 2007 among Cedar Fair, L.P. and Subsidiaries as co-borrowers, and several banks and certain “Lenders” party thereto. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Form 8-K (File No. 001-09444) filed on February 21, 2007.	*
10.15	Amendment No. 1 dated August 12, 2009 to the Amended and Restated Credit Agreement dated as of February 15, 2007. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on August 14,2009.	*
10.16	Credit Agreement Waiver, dated January 26, 2010, to the Amended and Restated Credit Agreement, dated February 15, 2007. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on January 28, 2010.	*
10.17	Cedar Fair, L.P. 2008 Omnibus Incentive Plan dated as of May 15, 2008. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on May 20, 2008.	*
10.18	Cedar Fair, L.P. 2008 Omnibus Incentive Plan Long-Term Incentive Award Agreement. Incorporated herein by reference to Exhibit 10.13 to the Registrant's Form 10-K filed on March 2, 2009.	*
10.19	Cedar Fair, L.P. 2008 Omnibus Incentive Plan 2008-2011 Performance Award Agreement. Incorporated herein by reference to Exhibit 10.13 to the Registrant's Form 10-K filed on March 2, 2009.	*
10.20	Cedar Fair, L.P. 2008 Omnibus Incentive Plan Form of Restricted Phantom Unit Award Agreement, Incorporated herein by reference to Exhibit 10 to the Registrant's Form 10-Q filed on May 8, 2009	*
10.21	Letter Agreement between Cedar Fair, L.P., Cedar Fair Management, Inc., Q Funding III, L.P. and Q4 Funding, L.P., dated May 4, 2010. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on May 5, 2010.	*
10.22	Credit Agreement, among Cedar Fair, L.P., Magnum Management Corporation and Canada's Wonderland Company as borrowers, the several lenders from time to time party thereto, Keybank National Association, Wells Fargo Bank, N.A., UBS Loan Finance LLC and Fifth	*

	Third Bank as co-syndication agents and JPMorgan Chase Bank, N.A. as administrative agent and collateral agent, dated July 29, 2010. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on July 29, 2010.	
10.23	Amendment No. 1, dated February 25, 2011, to Credit Agreement, among Cedar Fair, L.P.,Magnum Management Corporation and Canada's Wonderland Company as borrowers, the several lenders from time to time party thereto, KeyBank National Association, Wells Fargo Bank, N.A., UBS Loan Finance, LLC and Fifth Third Bank as co-syndication agents and JPMorgan Chase Bank, N.A. as administrative agent and collateral agent. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on March 3, 2011.	*
10.24	Form of Indemnification Agreement. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Form 8-K filed November 1, 2011.	*
10.25	2008 Omnibus Incentive Plan Form of Restricted Unit Award Agreement. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Form 8-K filed March 28, 2012.	*
10.26	2008 Omnibus Incentive Plan Form of Option Award Agreement. Incorporated herein by reference to Exhibit 10.2 to the Registrant's Form 8-K filed March 28, 2012.	*
10.27	2008 Omnibus Incentive Plan Form of Performance Award Agreement. Incorporated herein by reference to Exhibit 10.3 to the Registrant's Form 8-K filed March 28, 2012.	*
10.28	Amended and Restated Employment Agreement, by and among Cedar Fair, L.P., Cedar Fair Management, Inc., Magnum Management Corporation and David Hoffman, dated April 24, 2012. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Form 8-K filed April 27, 2012.	*
10.29	Employment Agreement by and between Cedar Fair, L.P., Cedar Fair Management, Inc., Magnum Corporation and Brian Witherow, dated December 4, 2012. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Form 8-K filed December 7, 2012.	*

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EXHIBIT INDEX (continued)

10.30	Employment Agreement by and between Cedar Fair, L.P., Cedar Fair Management, Inc., Magnum Corporation and Kelley Semmelroth, dated December 4, 2012. Incorporated herein by reference to Exhibit 10.2 to the Registrant's Form 8-K filed December 7, 2012.	*
10.31	Amended and Restated Employment Agreement by and between Cedar Fair, L.P., Cedar Fair Management, Inc., Magnum Management Corporation and Matthew A. Ouimet, dated December 4, 2012. Incorporated herein by reference to Exhibit 10.3 to the Registrant's Form 8-K filed December 7, 2012.	*
10.32	Amended and Restated Employment Agreement by and between Cedar Fair, L.P., Cedar Fair Management, Inc., Magnum Management Corporation and Richard Zimmerman, dated December 4, 2012. Incorporated herein by reference to Exhibit 10.4 to the Registrant's Form 8-K filed December 7, 2012.	*
21	Subsidiaries of Cedar Fair, L.P.	72
23	Consent of Independent Registered Public Accounting Firm	73
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	74
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	75
32.1	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	76
101	The following materials from the Company’s Annual Report on Form 10-K for the year ended December 31, 2011 formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Statements of Operations and Comprehensive Income, (ii) the Consolidated Balance Sheets, (iii) the Consolidated Statements of Cash Flows, (iv) the Consolidated Statements of Partners' Equity and, (v) related notes.	*