ANNALY CAPITAL MANAGEMENT INC
Form DEF 14A
April 10, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant Filed by a Party other than the Registrant

CHECK THE APPROPRIATE BOX:

Preliminary Proxy Statement
Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
Definitive Proxy Statement
Definitive Additional Materials
Soliciting Material Under Rule 14a-12

ANNALY CAPITAL MANAGEMENT, INC.

(Name of Registrant as Specified In Its Charter)
(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

PAYMENT OF FILING FEE (CHECK THE APPROPRIATE BOX):

No fee required.
Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
1) Title of each class of securities to which transaction applies:
2) Aggregate number of securities to which transaction applies:
3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
4) Proposed maximum aggregate value of transaction:
5) Total fee paid:

Fee paid previously with preliminary materials:
Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.
1) Amount previously paid:
2) Form, Schedule or Registration Statement No.:
3) Filing Party:
4) Date Filed:

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Notice of 2018 Annual Meeting of Stockholders and Proxy Statement

May 23, 2018
9:00 a.m. (Eastern Time)
www.virtualshareholdermeeting.com/NLY2018

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Dear Fellow Shareholders,

2017 was a year of realization for Annaly. We enter 2018 having made significant progress on a number of key goals and initiatives further strengthening Annaly's market leadership.

SHAREHOLDER ENGAGEMENT
Broad Outreach to Shareholders; Responsive Disclosure Enhancements

Throughout the past year, we have continued to expand the shareholder outreach efforts undertaken since I became CEO in 2015. We've redoubled our efforts to engage in meaningful dialogue around critical strategic and governance issues with our shareholders. In 2017, these efforts spanned new and existing investors in the U.S., Canada and Europe and included our inaugural investor day with over 100 participants in attendance. Across our ownership base, we engaged with shareholders representing over 70% of the Company's institutional ownership. We concluded 2017 with over 170 new institutional investors and our overall institutional shareholder base has increased over 30% since 2014(1). In response to shareholder feedback, and in line with the Company's ongoing commitment to improved transparency, we've added enhanced disclosure to this proxy statement regarding the operating efficiencies of our diversified model, the parameters and makeup of our manager's executive pay program and our enhanced corporate governance practices. We look forward to your feedback.

HUMAN CAPITAL & OWNERSHIP CULTURE
Investing in Intellectual Capital with 125+ New Hires since 2014; 100% of Employees Subject to Stock Ownership Guidelines Have Purchased Annaly Shares

Since the initiation of our diversification strategy in 2014, we have hired over 125 professionals including senior members of our diversified investment and management teams. Many of these professionals – and over 40% of the entire firm – have been asked to purchase predetermined amounts of shares based on criteria including seniority, compensation level and role. I'm pleased that as of March 31, 2018, all individuals either met, or within the applicable period are expected to meet, the stock ownership guidelines. Recently, I voluntarily increased my ownership commitment to $15 million of Annaly shares to further instill an ownership culture at the Firm and to emphasize my belief in the Company and its future.

OPERATIONAL EXCELLENCE
48% More Efficient as a Percentage of Equity; 61% More Efficient than Peers as a Percentage of Assets[2]

While we have made broad and significant investments over the past few years in our investment platforms and financing strategies, we have not asked shareholders to bear the incremental costs for this growth and diversification. We currently operate our multi-strategy model with four distinct investment groups on a highly efficient basis, and our outsized returns are in part attributable to our diversified, scalable model, with an operating expense to equity ratio of 1.68%, 48% lower than the average of our industry peers. As a percentage of assets, this ratio is merely 0.25%, or 61% lower than the average mREIT.

(1) Shareholder data per Ipreo based on investor filings as of December 31, 2017.

(2) Represents Annaly's average operating expense as a percentage of average assets and average equity compared to the Bloomberg mREIT Index (BBREMTG Index) for the year ended December 31, 2017. Analysis includes companies in BBREMTG Index as of December 31, 2017. Operating expense is defined as: (i) for internally-managed peers, the sum of compensation and benefits, general and administrative expenses ("G&A") and other operating expenses, and (ii) for externally-managed peers and Annaly, the sum of net management fees, compensation and benefits (if any), G&A and other operating expenses.

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DURABLE RETURNS
32% TSR, Outperforming Both the S&P 500 and Bloomberg mREIT Index by Nearly 50%(3)

We believe our diversified and scalable model is the predominant reason for our consistent, attractive returns and ability to capitalize on the numerous opportunities we have anticipated. In 2017, we produced a total shareholder return (TSR) of 32%, outperforming both the S&P 500 and the mREIT sector average by nearly 50%. 2017 was the best annual TSR for Annaly in the last decade – a tremendous accomplishment given the rising interest rate environment. Further, since 2014 when we began our diversification strategy, our TSR of 86% far exceeds the 57% return of the S&P 500. In March of 2018, we declared our 18th consecutive quarterly dividend of $0.30.

GOVERNANCE & SOCIAL RESPONSIBILITY
Increased Percentage of Women on the Board to 36%; Execution of Long-Term ESG Strategy(4)

Finally, well before ESG (Environmental, Social and Governance) became the popular acronym it is today, we were already highly focused on all aspects of corporate governance. We are very proud of the addition of two new highly qualified directors, Vicki Williams and Katie Beirne Fallon, which brings the percentage of women on the Board to 36%. As another illustration of our commitment to a gender equal workplace, in early 2018, Annaly was named as one of only 103 companies to the Bloomberg Gender Equality Index. The Company has also turned its lens on governance inward, refreshing Committee memberships and Chairmanships, and creating a new Public Responsibility Committee to oversee socially dedicated initiatives - including our joint venture with Capital Impact Partners to support community development for underserved areas. While too many other companies have ignored or are forced to play “catch-up” in these critical areas, Annaly has demonstrated our full commitment to being a market leader in corporate governance.

After 20 years as a publicly-traded company, we have proven our longevity and delivered consistent outperformance while transforming Annaly into an industry leading, diversified “Yield Manufacturer”. Our continuous reflection of the past, self-assessment of the present and strategic planning for the future enables us to be opportunistic rather than reactive. It is humbling to remember where Annaly began and to celebrate the ingenuity and dedication it has taken to get Annaly where it is today. Our performance is attributable to our proprietary model and exceptional people. Each business and every strategic move is the product of our long developed plan. Our architecture is designed to capitalize on the numerous opportunities we are uniquely positioned to realize in the years ahead.

I thank our investors for their support and trust, our Board for its guidance and each one of our employees for their deep commitment to Annaly and its shareholders.

Finally, this year we are excited to hold our Annual Shareholder Meeting online for the first time via live webcast. The more interactive online format also enables us to open our Annual Meeting to shareholders from locations around the world. We look forward to speaking to you then.

Sincerely,

Kevin Keyes
Chairman, Chief Executive Officer & President
April 10, 2018

(3) Represents total shareholder return (“TSR”) for the year ended December 31, 2017.
(4) Board composition as of January 1, 2018.

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Notice of Annual Meeting of Stockholders

To the Stockholders of Annaly Capital Management, Inc.:

Annaly Capital Management, Inc., a Maryland corporation ("Annaly" or the "Company"), will hold its annual meeting of stockholders (the "Annual Meeting") on May 23, 2018, at 9:00 a.m. (Eastern Time) online at www.virtualshareholdermeeting.com/NLY2018, to:

1. Elect three Directors for terms of three years each, one Director for a term of two years and one Director for a term of one year as set forth in the accompanying Proxy Statement;
2. Approve, on an advisory basis, the Company's executive compensation; and
3. Ratify the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for 2018.

The Company will also transact any other business as may properly come before the Annual Meeting or any postponement or adjournment thereof. Only common stockholders of record at the close of business on March 26, 2018, the record date for the Annual Meeting, may vote at the Annual Meeting and any postponements or adjournments thereof.

Your vote is very important. Please exercise your right to vote.

The Company's Board of Directors ("Board") is soliciting proxies in connection with the Annual Meeting. The Company is sending the Notice of Internet Availability of Proxy Materials ("Notice"), or a printed copy of the proxy materials, as applicable, commencing on or about April 10, 2018.

To view the Proxy Statement and other materials about the Annual Meeting, go to www.annalyannualmeeting.com or www.proxyvote.com.

All stockholders are cordially invited to attend the Annual Meeting, which will be conducted via a live webcast. The Company is excited to embrace the environmentally-friendly virtual meeting format, which it believes will enable increased stockholder attendance and participation. During this virtual meeting, you may ask questions and will be able to vote your shares electronically. You may also submit questions in advance of the Annual Meeting by visiting www.proxyvote.com. The Company will respond to as many inquiries at the Annual Meeting as time allows.

An audio broadcast of the Annual Meeting will also be available to stockholders by telephone toll-free at 1-877-328-2502. If you plan to attend the Annual Meeting online or listen to the telephonic audio broadcast, you will need the 16-digit control number included in your Notice, on your proxy card or on the instructions that accompany your proxy materials. Please note that listening to the audio broadcast will not be deemed to be attending the Annual Meeting, and you cannot vote from such audio broadcast. The Annual Meeting will begin promptly at 9:00 a.m. (Eastern Time). Online check-in will begin at 8:30 a.m. (Eastern Time), and you should allow ample time for the online check-in procedures.

If you wish to watch the webcast at a location provided by the Company, the Company's Maryland counsel, Venable LLP, will air the webcast at its offices located at 750 E. Pratt Street, Suite 900, Baltimore, MD 21202. Please note that no members of management or the Board will be in attendance at this location. If you would like to view the Annual Meeting webcast at Venable LLP's office, please follow the directions for doing so set forth in the "Questions and Answers about the Annual Meeting" section in this Proxy Statement.

By Order of the Board of Directors,

Chief Legal Officer and Secretary
April 10, 2018

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting to be Held on May 23, 2018.
The Company's Proxy Statement and 2017 Annual Report to Stockholders are available at www.proxyvote.com.

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Proxy Summary

This summary contains highlights about the Company and the Annual Meeting. This summary does not contain all of the information that you should consider in advance of the Annual Meeting, and the Company encourages you to read the entire Proxy Statement and the Company's 2017 Annual Report on Form 10-K carefully before voting.

2018 ANNUAL MEETING OF STOCKHOLDERS

TIME AND DATE:	Wednesday, May 23, 2018 at 9:00 a.m. (Eastern Time)
PLACE:	www.virtualshareholdermeeting.com/NLY2018
RECORD DATE:	Close of business on March 26, 2018
VOTING:	Stockholders are able to vote by Internet at www.proxyvote.com; telephone at 1-800-690-6903; by completing and returning their proxy card; or online at the Annual Meeting

VOTING MATTERS

	Board Vote Recommendation	Page Number
Proposal No. 1: Election of Directors	**FOR** each Director nominee	19
Proposal No. 2: Approval, on an advisory basis, of the Company's executive compensation	**FOR**	45
Proposal No. 3: Ratification of the appointment of Ernst & Young LLP	**FOR**	49

PARTICIPATE IN THE ANNUAL MEETING

After years of declining attendance by stockholders at Annaly's in-person annual meetings, the Company is moving to an online format for this year's Annual Meeting. By hosting the Annual Meeting virtually, Annaly is able to communicate more effectively with its stockholders, enable increased attendance and participation from locations around the world and reduce costs for both the Company and its stockholders. This approach also aligns with the Company's broader sustainability goals. The virtual meeting has been designed to provide the same rights to participate as you would have at an in-person meeting, including providing opportunities to make statements and ask questions.

VOTING

Stockholders are entitled to vote by

INTERNET
www.proxyvote.com

TELEPHONE
1-800-690-6903

MAIL
completing and returning their proxy card

ONLINE
at the Annual Meeting

INFORMATION
www.annalyannualmeeting.com

You are entitled to participate and vote at the Annual Meeting by visiting www.virtualshareholdermeeting.com/NLY2018. An audio broadcast of the Annual Meeting will also be available to stockholders by telephone toll-free at 1-877-328-2502. If you plan to attend the Annual Meeting online or listen to the telephonic audio broadcast, you will need the 16-digit control number included in your Notice, on your proxy card or on the instructions that accompany your proxy materials. Please note that listening to the audio broadcast will not be deemed to be attending the Annual Meeting and you cannot vote from such audio broadcast. Stockholders can access Annaly's interactive pre-meeting forum, where you can submit questions in advance of the Annual Meeting and view copies of the Company's proxy materials, by visiting www.proxyvote.com.

If you wish to watch the webcast at a location provided by the Company, the Company's Maryland counsel, Venable LLP, will air the webcast at its offices located at 750 E. Pratt Street, Suite 900, Baltimore, MD 2102. Please note that no members of management or the Board will be in attendance at this location. If you wish to view the Annual Meeting via webcast at Venable LLP's office, please complete the Reservation Request Form found at the end of this Proxy Statement. For additional information on the Annual Meeting, and for copies of the Company's Proxy Statement and 2017 Annual Report, please visit Annaly's Annual Meeting informational website at www.annalyannualmeeting.com.

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ANNALY AT A GLANCE

NLY
New York Stock Exchange Traded

1997
Initial Public Offering

$15 billion[(1)]
Largest mortgage REIT in the world

The Company has been externally-managed by Annaly Management Company LLC (the "Manager") since July 2013. The Manager is responsible for managing the Company's affairs pursuant to a management agreement. The Manager pays all of the compensation, including benefits, to its employees (which include the named executive officers ("NEOs") other than Mr. Keyes, who receives no compensation for his services as the Company's Chief Executive Officer ("CEO"), but has an interest in the management fee as an indirect equityholder of the Manager). Although certain personnel (but none of the NEOs) are employed by subsidiaries of the Company for regulatory or corporate efficiency reasons, all compensation and benefits paid to such personnel by these subsidiaries reduce, on a dollar-for-dollar basis, the management fee the Company pays to the Manager. As of December 31, 2017, the Manager had 146 employees and Annaly's subsidiaries collectively had six employees. For ease of reference, throughout this Proxy Statement, the NEOs and the other employees of the Manager, together with employees of Annaly's subsidiaries, are sometimes referred to as Annaly's employees.

RECENT OPERATING ACHIEVEMENTS

32%
Total Shareholder Return in 2017, the single best year in the last decade

$2.8 billion
of capital raised across common and preferred markets over 6 months[(2)]

$1.4 billion
Common and preferred dividends declared in 2017; Q1 represents the 18th consecutive quarter of a $0.30 dividend[(3)]

24%
Capital dedicated to credit assets at the end of 2017, an increase from 11% in 2014

36
Available investment options is nearly 3x more than in 2013

48%
Lower operating expense as a percentage of equity than the mREIT index in 2017[(4)]

$5.9 million
of common stock purchased by Annaly's NEOs in 2017[(5)], with the CEO voluntarily increasing his stock ownership commitment to $15 million

7
New financing relationships as part of initiative to broaden and diversify counterparties

27
New hires in 2017, bringing total new hires since 2014 to 125+, including several members of management

(1) Represents capital as of December 31, 2017.
(2) Capital raising total proceeds include $425 million preferred offering completed in January 2018. Gross proceeds are before deducting underwriting discounts and other offering expenses.
(3) The first quarter 2018 common stock cash dividend was declared on March 15, 2018 and is payable on April 30, 2018.
(4) Represents the percentage difference of Annaly's operating expense as a percentage of average equity vs. the BBREMTG for 2017. Operating expense is defined as: (i) for internally-managed BBREMTG members, the sum of compensation & benefits, general & administrative expenses and other operating expenses, and (ii) for externally-managed BBREMTG members, the sum of net management fees, compensation & benefits (if any), general & administrative expenses and other operating expenses.
(5) Includes dividend reinvestments.

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ANNALY'S DIVERSIFIED INVESTMENT STRATEGY

Diversification is a key component of the Annaly strategy. Since 2014, Annaly has diversified its business model by investing in credit assets, which complement the Company's primary portfolio of interest rate sensitive investments. This strategy is designed to achieve stable risk-adjusted earnings and book value performance over various interest rate and economic cycles by pairing shorter duration floating-rate credit securities with the Company's longer duration, fixed-rate agency portfolio. Annaly now has four distinct investment groups, which provide access to over 36 investment options and structures. While managing investment decisions, the Company combines a robust capital allocation process with careful risk management. This process enables Annaly to take advantage of market fluctuations and inefficiencies and rotate into credit markets when dislocations occur and pricing is attractive on a risk-adjusted, relative value basis.

Assets[1] Capital[2]

Sector Rank[3]

Strategy

Levered Returns[4]

(1) Agency assets include to be announced ("TBA") purchase contracts (market value) and mortgage servicing rights ("MSRs"). Residential Credit and Annaly Commercial Real Estate ("ACREG") assets include only the economic interest of consolidated variable interest entities ("VIEs").

(2) Dedicated capital includes TBA purchase contracts, excludes non-portfolio related activity and varies from total stockholders' equity.

(3) Sector rank compares Annaly dedicated capital in each of its four investment groups as of December 31, 2017 (adjusted for price to book as of December 31, 2017) to the market capitalization of the companies in each respective comparative sector as of December 31, 2017. Comparative sectors used for Agency, Residential Credit and Commercial Real Estate ranking are their respective sector within the BBREMTG as of December 31, 2017. Comparative sector used for Middle Market Lending ranking is the S&P BDC Index.

(4) Levered return assumptions are for illustrative purposes only and attempt to represent current market asset returns and financing terms for prospective investments of the same, or a substantially similar, nature in each respective group.

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The Company has 36 investment options across its four investment groups, which is nearly three times more than in 2013 and up from 26 options at the end of 2015.

DIVIDENDS

From Annaly's IPO in 1997 through December 31, 2017, the Company has declared over $16 billion in common and preferred dividends to its stockholders. In 2017, Annaly declared over $1.4 billion in common and preferred dividends.

$16 billion
The cumulative dividends Annaly has delivered to stockholders since its IPO

$1.4 billion
of common and preferred dividends delivered to stockholders in 2017

18
Consecutive quarters of a $0.30 dividend through Q1 2018

DELIVERING SIGNIFICANT VALUE FOR STOCKHOLDERS

12.4%[(1)]	32%	883%
Economic return in 2017, which represents the change in book value plus dividends declared over the year	Total shareholder return in 2017, the single best year in the last decade	Total shareholder return since Annaly's IPO (including reinvestment of dividends)

Since 2014 (the first full year the Company was externally-managed, as more fully described in "Management Structure" on page 38), Annaly has performed well against relevant benchmarks. As illustrated by the graphs below, shares of the Company's common stock (including reinvestment of dividends) have returned significant value to stockholders over the long term relative to both the Company's mREIT peers and other yield-focused investments.

(1) Economic return is shown for full year 2017 and represents change in book value plus dividends declared over prior period book value.

(2) Source: Bloomberg. mREITs represent BBREMTG Index. Utilities represent the Russell 3000 Utilities Index. MLPs represent the Alerian MLP Index. Asset Managers represent the S&P 500 Asset Management and Custody Bank Index. Banks represent the KBW Bank Index. S&P represents the S&P 500 index. Note: Total shareholder return shown for period of December 31, 2013 to December 31, 2017 in top graph. Total shareholder return shown for period of December 31, 2016 to December 31, 2017 in bottom graph.

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STOCKHOLDER OUTREACH AND RESULTS OF 2017 SAY-ON-PAY VOTE

7	72	100+
Non-deal roadshows across the U.S., Canada and Europe	One-on-one meetings and phone calls with stockholders	Participants attended Annaly's inaugural Investor Day

The Company is committed to ongoing engagement with both retail and institutional stockholders through a wide range of mediums. These engagement efforts have yielded meaningful feedback on a variety of topics, including the Company's diversified investment strategy and its corporate governance, compensation and management structures.

Following the results of Annaly's 2017 advisory resolution on executive compensation (commonly known as a "Say-on-Pay" vote), which received support from 69% of votes cast, the Company continued its multi-pronged outreach campaign to solicit feedback from key stakeholders on a number of issues, including the Manager's executive compensation program and proposed compensation disclosure for 2018, board composition and refreshment and corporate social responsibility initiatives.

Outreach included approximately	*Outreach included approximately*	*Management hosted meetings with investors representing*

The Company's stockholder outreach efforts to solicit feedback on the Manager's executive compensation program and the Company's proposed disclosure were complemented by related initiatives, including:

- Analysis of market practices at peer companies
- Advice from compensation consultants
- Attendance at investor conferences
- Discussions with proxy advisory services and corporate governance research firms

These stockholder engagement efforts generated significant feedback for both the Board and management and resulted in a number of enhancements to corporate governance and compensation practices and disclosures. Annaly's stockholders have been extremely instrumental to, and supportive of, these governance and disclosure enhancements and the Company looks forward to continuing to find innovative ways to engage over the course of 2018 and beyond.

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STOCKHOLDER ENGAGEMENT

WHAT THE COMPANY HEARD	WHAT THE COMPANY DID
	Provided additional clarity and transparency on the Manager's executive compensation program, including disclosure of:
	the portion of the management fee that is allocated to NEO compensation paid by the Manager
	of this compensation, the portion of fixed vs. variable/incentive pay
	the metrics utilized to measure performance to determine variable/ incentive pay
	CEO voluntarily increased his stock ownership commitment to $15 million (from his existing requirement of $10 million) and pledged to meet this amount through open market purchases within three years
	Other members of senior management, including the Chief Investment Officer, Chief Credit Officer, Chief Financial Officer and Chief Legal Officer, also committed to voluntarily increase their stock ownership positions beyond the amounts required under their applicable stock ownership guidelines
	Adopted an enhanced Board self-evaluation process that includes annual assessments of the full Board, each Board committee and individual Directors, which will be facilitated by an external evaluator on a periodic basis
	Assessed all Directors to ensure continued match of skills against the Company's needs
	Refreshed Board Committee memberships and chairmanships
	Appointed 2 new highly qualified Directors to the Board as of January 1, 2018
	Doubled the number of women Directors (from 2 to 4) as a result of these appointments
	36% of Directors are women
	4 of 11 Directors have tenure of less than 5 years
	Board became a Full Board Member of the National Association of Corporate Directors (NACD), which gives Directors access to an extensive menu of board education programs, along with research on governance trends and board practices
	Created Public Responsibility Committee of the Board to provide oversight of corporate philanthropy, culture and reputation, social impact investments and initiatives related to sustainability and public policy
	The Company partnered with Capital Impact Partners to launch a new joint venture dedicated to supporting community development in underserved cities across the country
	Recognized in the 2018 Bloomberg Gender-Equality Index, reflecting the Company's commitment to creating a gender equal workplace
	Hosted first investor day with over 100 attendees
	Moving to an online format for the Annual Meeting to enable increased stockholder attendance and participation
	Established interactive pre-meeting forum, where stockholders can submit questions in advance of the Annual Meeting

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ENHANCED DISCLOSURE ON THE MANAGER'S EXECUTIVE COMPENSATION PROGRAM

89.7%	10.3%	16.2%
of NEO compensation was variable and paid in the form of performance-based cash incentive bonuses	of NEO compensation was paid in the form of fixed base salaries	of the aggregate management fees paid to the Manager were allocated by the Manager as NEO compensation

Over the last two years, the Company has engaged in extensive outreach to understand the information stockholders need in order to fully evaluate the Manager's executive compensation program for purposes of making an informed Say-on-Pay vote. In response to this feedback, the Manager has provided the information below about the compensation it paid to the NEOs for 2017.

With the exception of Mr. Keyes (who does not receive any direct or indirect compensation from the Manager or the Company for his services as the Company's CEO, but does have an interest in the fees paid to the Manager as an indirect equityholder of the Manager), each of the NEOs received a base salary and a performance-based cash incentive bonus for 2017.

During 2017, the NEOs as a group received aggregate salaries of $2.8 million and aggregate performance-based cash incentive bonuses of $23.9 million from the Manager. These amounts collectively represent 16.2% of the aggregate management fees the Company paid to the Manager during 2017. On an aggregated basis, the NEOs received 10.3% of their total compensation in the form of base salaries and the remaining 89.7% in the form of performance-based cash incentive bonuses.

In determining the cash bonuses it paid to the NEOs for 2017, the Manager considered achievement of both rigorous Company performance metrics,[1] including core return on equity, core return on assets, and operating expenses as a percentage of average equity, along with individual performance objectives.

The Manager considered a list of specified peer companies (set forth on page 44 under "Company Market Data"), together with advice from the Manager's compensation consultants, to develop appropriate compensation packages for the NEOs.

For additional information about the Manager, the management agreement and executive compensation, see "Certain Relationships and Related Party Transactions," "Management Structure", "Compensation Paid by the Manager to the Named Executive Officers" and "Compensation Discussion and Analysis."

(1) Each of the core performance metrics referred to in this Proxy Statement, including core return on equity and core return on assets, excludes the premium amortization adjustment, which represents the cumulative impact on prior periods, but not the current period, of quarter-over-quarter changes in estimated long-term prepayment speeds related to the Company's Agency mortgage-backed securities.

THE MANAGER AND THE MANAGEMENT AGREEMENT

1.05%
The Manager receives a fee equal to 1.05% of the Company's stockholders' equity

29%
Annaly's management fee is 29% lower than the industry average of 1.48%(1)

$276 million
Approximate compensation savings since the Externalization in July 2013(2)

- All of the NEOs are indirect owners and/or employees of the Manager
- With the exception of Mr. Keyes, each of the other NEOs receives compensation paid by the Manager. Mr. Keyes receives no compensation for his services as CEO, although, as an indirect equityholder of the parent of the Manager, Mr. Keyes has an interest in the fees paid to the Manager
- The Manager is responsible for the compensation of its employees (including the NEOs other than Mr. Keyes) who provide services to the Company. Annaly does not pay any cash or equity compensation to its executive officers, does not provide pension benefits, perquisites or other personal benefits, and has no employment agreements or arrangements to pay any cash severance upon their termination or a change in control of the Company
- The Manager receives a flat management fee equal to 1.05% of the Company's stockholders' equity (as defined in the Management Agreement), which is used by the Manager to, among other things, pay the compensation and benefits of the Manager's employees (including the NEOs). However, the Company does not determine the compensation payable by the Manager to the NEOs, the Company does not allocate any specific portion of the management fee it pays to the compensation of the NEOs, nor does the Company reimburse the Manager for the cost of such compensation
- For 2017, the management fee was approximately $164.3 million

Over the past several years, the Manager has made significant investments in personnel corresponding to the diversification of its investment strategy into more people-intensive asset classes (including Residential Credit, Commercial Real Estate and Middle Market Lending assets), as well as to corporate infrastructure enhancements. These investments include the build out of teams for the Agency, Residential Credit, Commercial Real Estate and Middle Market Lending groups, and significant hires in business support functions, such as Risk Management, Legal and Compliance, Finance and Information Technology, among others.

91
Dedicated staff supporting best-in-class Risk Management, Technology, Legal, Finance and Business Development functions

96%
of employees feel Annaly is committed to exceeding stockholder expectations, compared to the Financial Services average of 88%(3)

10
Internal development programs in place with 100% employee participation

7
Management committees with broad representation designed to provide guidance and oversight

The costs of these personnel expansions and improvements have been paid by the Manager rather than by the Company. Unlike a number of other externally-managed REITs, Annaly does not reimburse the Manager for any portion or subset of employment costs, all of which are borne by the Manager. An increase to these costs does not result in any increase to the management fee, which is a fixed percentage of stockholders' equity as described above.

Despite the costs associated with the diversification of its investment strategy, the Manager has continued to operate the business in an efficient manner with appropriately scaled operating costs (including the management fee). As illustrated by the table below, Annaly's average operating expense levels have remained significantly lower than both its internally- and externally-managed mREIT peers over the last six years.

(1) The "industry average" reflects the average management fee of all externally-managed companies (excluding Annaly) included in the BBREMTG Index as of December 31, 2017. For additional information, including assumptions, about this calculation, please see "Management Agreement Terms" on pages 38 - 39.
(2) For additional information, including assumptions, about this calculation, please see "Continued Cost Savings Related to the Externalization" on page 40.
(3) "Financial Services" average is provided by Perceptyx based on a cross section of global and domestic banks, credit card companies, insurance companies, accountancy companies, consumer finance companies, stock brokerages, and investment funds.

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1.45%	1.66%	1.61%	1.58%	1.65%	1.68%	**1.61%**
2.71%	3.95%	3.92%	3.68%	2.14%	2.10%	**3.08%**
2.38%	3.06%	3.55%	3.82%	4.36%	4.00%	**3.53%**
2.33%	3.30%	3.62%	3.80%	3.53%	3.25%	**3.30%**

For additional information about the Manager, the management agreement and executive compensation, see "Certain Relationships and Related Party Transactions," "Management Structure", "Compensation Paid by the Manager to the Named Executive Officers" and "Compensation Discussion and Analysis."

GOVERNANCE TIMELINE

Annaly s proposal to be externally managed received 83% support from stockholders

Added new Independent Director

Enhanced financial disclosure, including additional financial metrics

Added new Independent Director

Robust Lead Independent Director role created

Established Risk Committee

Detailed succession planning process with Board

Kevin Keyes appointed as CEO

Initiated extensive investor outreach

Adopted broad-based stock ownership guidelines for employees

Increased Board ownership guidelines

Adopted clawback policy for external manager

Adopted anti-pledging policy

Adopted four-year stock holding period

Established a new Public Relations Committee; rotated Board Committee chairs and members

Launched social impact investing joint venture

Inclusion of Board skills matrix in proxy statement

Joined Council of Institutional Investors (CII) as corporate member

Designated second Audit Committee financial expert

Joined National Association of Corporate Directors (NACD) as Full Board Member

NEOs voluntarily committed to increase stock ownership positions

Hosted inaugural Investor Day

Launched Women's Interactive Network

Added 2 Independent Directors

Virtual meeting format for Annual Meeting

Adopted enhanced Board evaluation process, including individual directors assessments and periodic use of external facilitator

Enhanced compensation and other disclosure in proxy statement

Included in the 2018 Bloomberg Gender-Equality Index

(1) Source: Company Filings, SNL and Bloomberg. Averages are market weighted based on market capitalization as of December 31st of each respective year. Note: Internally-Managed Peers and Externally-Managed Peers represent the respective internally- and externally-managed members of the BBREMTG Index as of December 31st of each respective year. The average for each excludes Annaly and companies during years in which they became public or first listed. Operating Expense is defined as: (i) for Internally-Managed Peers, the sum of compensation & benefits, general & administrative expenses and other operating expenses, and (ii) for Externally-Managed Peers and Annaly, the sum of net management fees, compensation & benefits (if any), general & administrative expenses and other operating expenses. Annaly's 2016 operating expenses exclude costs of $49 million related to the Company's acquisition of Hatteras Financial Corp.

BOARD COMPOSITION AND REFRESHMENT

4
of 11 Directors have tenure of less than 5 years

82%
of Annaly's Board of Directors is comprised of Independent Directors with deep and diverse expertise

36%
of Annaly's Board of Directors are women

The Nominating/Corporate Governance Committee (the "NCG Committee") of the Board seeks to achieve a balance of knowledge, experience and capability on the Board. Newer Directors offer fresh ideas and perspectives, while deeply experienced Directors bring extensive knowledge of the Company's complex operations. On an annual basis, the NCG Committee evaluates the Board's overall composition, including Director tenure and rigorously evaluates all Directors to ensure a continued match of their skill sets against the needs of the Company. This assessment also informs Board succession planning, and contributed to the appointment, effective January 1, 2018, of two new Independent Directors (Katie Beirne Fallon and Vicki Williams) with skills that complement the Company's highly qualified Board. The table below summarizes key qualifications, skills, and attributes most relevant to the Directors' service on the Board. For additional information about individual Director's qualifications and experience, please see the Director biographies beginning on page 20.

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Corporate Governance at Annaly

(1) Represents the percentage difference of operating expense as a percentage of average equity for Annaly vs. the BBREMTG average for 2017.

(2) Represents the percentage difference of operating expense as a percentage of average assets for Annaly vs. the BBREMTG average for 2017. Notes: Operating Expense is defined as: (i) for internally-managed BBREMTG members, the sum of compensation & benefits, general & administrative expenses and other operating expenses, and (ii) for externally-managed BBREMTG members (including Annaly), the sum of net management fees, compensation & benefits (if any), general & administrative expenses and other operating expenses.

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Election of Directors

The Company has three classes of Directors. At the Annual Meeting, stockholders will vote to elect three Class I Directors (Wellington J. Denahan, Michael Haylon and Donnell A. Segalas), whose terms will expire at the annual meeting of stockholders in 2021 ("2021 Annual Meeting"), one Class III Director (Katie Beirne Fallon, who was appointed to the Board, effective January 1, 2018), whose term will expire at the annual meeting of stockholders in 2020 ("2020 Annual Meeting"), and one Class II Director (Vicki Williams, who was appointed to the Board, effective January 1, 2018), whose term will expire at the annual meeting of stockholders in 2019 ("2019 Annual Meeting"), each subject to the election and qualification of his or her successor or to his or her earlier death, resignation or removal. Other than Ms. Williams and Ms. Fallon, the terms of the other Class II and Class III Directors expire at the 2019 Annual Meeting and the 2020 Annual Meeting, respectively, and will not be voted upon at the Annual Meeting. The table below provides summary information about each of the Directors.

PROPOSAL **01**

The Board has nominated and recommends a vote **FOR** each of Wellington J. Denahan, Michael Haylon and Donnell A. Segalas as Directors to hold office until the 2021 Annual Meeting, **FOR** Katie Beirne Fallon as a Director to hold office until the 2020 Annual Meeting, and **FOR** Vicki Williams as a Director to hold office until the 2019 Annual Meeting. Unless you specify a contrary choice, the persons named in the enclosed proxy will vote in favor of these nominees. In the event that these nominees should become unavailable for election due to any presently unforeseen reason, the persons named in the proxy will have the right to use their discretion to vote for a substitute.

Name	Age	Principal Occupation	Independent	Committees
Wellington J. Denahan	54	**Former Executive Chairman** Annaly Capital Management, Inc.	No	PR Risk
Michael Haylon	60	**Managing Director** Conning, Inc.	Yes	Audit Risk
Donnell A. Segalas	60	**Chief Executive Officer and Managing Partner** Pinnacle Asset Management, L.P.	Yes	Compensation (Chair) NCG PR
Kevin G. Keyes	50	**Chairman, Chief Executive Officer and President** Annaly Capital Management, Inc.	No	
Kevin P. Brady	62	**Chief Executive Officer** ARMtech, LLC	Yes	Audit (Chair) NCG Risk
E. Wayne Nordberg	79	**Chairman** Hollow Brook Wealth Management, LLC	Yes	Audit Compensation NCG
Vicki Williams	45	**Senior Vice President Compensation, Benefits and HRIS** NBCUniversal	Yes	Audit Compensation
Francine J. Bovich	66	**Former Managing Director** Morgan Stanley Investment Management	Yes	NCG (Chair) PR
Katie Beirne Fallon	42	**Global Head of Corporate Affairs** Hilton Worldwide Holdings Inc.	Yes	NCG PR
Jonathan D. Green*	71	**Former Vice Chairman** Rockefeller Group	Yes	PR (Chair) Compensation Risk
John H. Schaefer	66	**Former President and Chief Operating Officer**	Yes	Risk (Chair) Audit

	Morgan Stanley Global Wealth Management	Compensation

* Lead Independent Director. For more details, see page 30.

CLASS I DIRECTORS

Wellington J. Denahan

Director since
1997

Committees
PR, Risk

Ms. Denahan co-founded Annaly in 1996 and has served as a Director since that time. Until December 2017, Ms. Denahan served as Chairman of the Board of Annaly (from November 2012) and Executive Chairman of Annaly (from September 2015). Previously, Ms. Denahan served as Chief Executive Officer of Annaly from November 2012 to September 2015 and as Co-Chief Executive Officer of Annaly from October 2012 to November 2012. Ms. Denahan was Annaly's Chief Operating Officer from January 2006 to October 2012 and Chief Investment Officer from 2000 to November 2012. Ms. Denahan received a B.S. in Finance from Florida State University.

Director Qualification Highlights

The Board believes that Ms. Denahan's qualifications include her significant oversight experience related to fixed income trading operations through years of serving as Annaly's Chief Operating Officer and Chief Investment Officer, her industry experience and expertise in the mortgage-backed securities markets, and her operational expertise, including her service as Annaly's former Chief Executive Officer.

Michael Haylon

Director since
2008

Committees
Audit, Risk

Mr. Haylon has served as Managing Director and Head of Asset Management Sales, Products and Marketing at Conning, Inc., a global provider of investment management solutions, services and research to the insurance industry, since December 2014. Mr. Haylon previously served as Managing Director and Head of Investment Products at Conning, Inc. from January 2012 until December 2014. From September 2010 to December 2011, Mr. Haylon served as Head of Investment Product Management at General Re – New England Asset Management. He was Chief Financial Officer of the Phoenix Companies, Inc. from 2004 until 2007, and Executive Vice President and Chief Investment Officer of the Phoenix Companies in 2002 and 2003. From 1995 until 2002, he held the position of Executive Vice President of Phoenix Investment Partners, Ltd., a NYSE-listed company, and President of Phoenix Investment Counsel, where he was responsible for the management and oversight of $25 billion in closed-end and open-end mutual funds, corporate pension funds and insurance company portfolios. From 1990 until 1994, he was Senior Vice President of Fixed-Income at Phoenix Home Life Insurance Company. From 1986 until 1990, he was Managing Director at Aetna Bond Investors where he was responsible for management of insurance company and pension fund portfolios. From 1980 until 1984, he was a Senior Financial Analyst at Travelers Insurance Companies. He began his career in 1979 in the commercial lending program at Philadelphia National Bank. Mr. Haylon has previously served on the boards of Aberdeen Asset Management and Phoenix Investment Partners. Mr. Haylon received a B.A. from Bowdoin College and a M.B.A. from the University of Connecticut.

Director Qualification Highlights

The Board believes that Mr. Haylon's qualifications include his significant leadership and management experience from his years of management and oversight of large financial asset portfolios, his prior board experience with other companies and his expertise in financial matters.

Donnell A. Segalas

Director since
1997

Committees
Compensation (Chair), NCG, PR

Mr. Segalas has served as the Chief Executive Officer and a Managing Partner of Pinnacle Asset Management L.P., a New York-based alternative asset management firm, since 2003. Additionally, Mr. Segalas is a member of Pinnacle's Investment Committee and sits on the boards of its offshore funds. Prior to joining Pinnacle, Mr. Segalas was Executive Vice President and Chief Marketing Officer for Alternative Investment Products at Phoenix Investment Partners. Mr. Segalas is a member of the Nantucket Historical Society. He received a B.A. from Denison University.

Director Qualification Highlights

The Board believes that Mr. Segalas's qualifications include his significant experience from his years of investing and managing private and public investment vehicles and his experience serving on investment and executive committees of other companies.

CLASS II DIRECTORS

Kevin G. Keyes

Director since
2012

Chairman of the Board

Mr. Keyes serves as Annaly's Chairman, Chief Executive Officer and President. Mr. Keyes has served as Chairman since January 2018, Chief Executive Officer since September 2015 and President since October 2012. Previously, Mr. Keyes served as Chief Strategy Officer and Head of Capital Markets of Annaly from September 2010 until October 2012. Prior to joining Annaly as a Managing Director in 2009, Mr. Keyes worked for 20 years in senior investment banking and capital markets roles. From 2005 until 2009, Mr. Keyes served in senior management and business origination roles in the Global Capital Markets and Banking Group at Bank of America Merrill Lynch. Prior to that, he worked at Credit Suisse First Boston from 1997 until 2005 in various capital markets origination roles and Morgan Stanley Dean Witter from 1990 until 1997 in the Mergers and Acquisitions Group and Real Estate Investment Banking Group. Mr. Keyes received a B.A. in Economics and a B.S. in Business Administration (ALPA Program) from the University of Notre Dame.

Director Qualification Highlights

The Board believes that Mr. Keyes brings to the Board a deep understanding of issues that are important to the Company's growth through his roles as Annaly's Chairman, CEO and President, and has demonstrated leadership qualities, management capability, business and industry knowledge and a long-term strategic perspective. In addition, Mr. Keyes' qualifications include over 20 years of experience as an investment banking and equity capital markets professional.

Kevin P. Brady

Director since
1997

Committees
Audit (Chair), NCG, Risk

Mr. Brady has served as the Chief Executive Officer of ARMtech, LLC, a venture capital firm he founded that invests and incubates technology start-ups, since 2007. ARMtech's current portfolio includes companies in the financial reporting and data spaces. Prior to ARMtech, Mr. Brady founded TaxStream, a software company that specialized in financial reporting, tax and internal controls for multinational corporations. Mr. Brady served as Chief Executive Officer of TaxStream from 2002 to 2008, when the company was sold to Thomson-Reuters. Mr. Brady previously worked for eight years at PricewaterhouseCoopers in New York City, where he consulted on M&A transactions and international tax issues. He was awarded a patent from the U.S. Patent and Trademark Office for the invention of the TaxStream product. Mr. Brady received a B.A. from McGill University, a M.B.A. from New York University and is a Certified Public Accountant (inactive).

Director Qualification Highlights

The Board believes that Mr. Brady's qualifications include his expertise in financial and accounting matters as well as his significant experience managing systems and companies focusing on the financial accounting market.

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E. Wayne Nordberg

Director since
2004

Committees
Audit, Compensation, NCG

Mr. Nordberg has served as Chairman of Hollow Brook Wealth Management, LLC, a SEC-registered investment advisor that manages or advises $900 million of investment assets, since 2008. From 2003 to 2008, Mr. Nordberg served as a senior director of Ingalls & Snyder LLC, an NYSE member and registered investment advisor. From 1998 to 2002, Mr. Nordberg served as Vice Chairman of the board of KBW Asset Management, Inc., an affiliate of Keefe, Bruyette, & Woods, Inc., a registered investment advisor. From 1988 to 1998, he served in various capacities for Lord Abbett & Co., a mutual fund company, including as partner and director of its family of funds. He is a member of the Financial Analysts Federation and the New York Society of Security Analysts and is a Trustee of the Atlantic Salmon Federation, the American Museum of Fly Fishing and the National Wildlife Federation Endowment Fund. Mr. Nordberg is also a director of PetroQuest Energy, Inc. and Reaves Utility Income Fund, both NYSE-listed companies. Mr. Nordberg received a B.A. from Lafayette College, where he is a trustee emeritus.

Director Qualification Highlights

The Board believes that Mr. Nordberg's qualifications include his significant experience in serving at a senior executive level with a SEC-registered investment advisor, his experience as a director of an asset management company and his service as a board member of other public companies.

Vicki Williams

Director since
2018

Committees
Audit, Compensation

Ms. Williams has served as Senior Vice President, Compensation, Benefits and HRIS at NBCUniversal, a multinational media conglomerate, and has over 17 years of compensation and governance experience. In addition to overseeing Compensation, Benefits and HRIS, she also oversees human resources support for corporate legal, human resources, communications, diversity, social responsibility and corporate events for NBCUniversal. Prior to joining NBCUniversal, Ms. Williams was a Partner with Pay Governance LLC and a Principal with Towers Perrin (now Willis Towers Watson). Ms. Williams received a B.S. in Mathematics and Education and a M.B.A. with a concentration in finance and quantitative statistics, each with honors from the University of Georgia.

Director Qualification Highlights

The Board believes that Ms. Williams's qualifications include her broad human resources, executive compensation and governance experience, including serving as a senior-level human resources executive at a multinational company and as an external compensation consultant.

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CLASS III DIRECTORS

Francine J. Bovich

Director since
2014

Committees
NCG (Chair), PR

Ms. Bovich has over 30 years of investment management experience lastly serving as a Managing Director of Morgan Stanley Investment Management from 1993-2010. Since 2011, Ms. Bovich has been a trustee of The Bradley Trusts. Ms. Bovich has also served as a board member of The Dreyfus Family of Funds since 2012, and serves as a board member of a number of registered investment companies within the fund complex. These funds represent a broad scope of investment strategies including equities (U.S., non-U.S., global, and emerging markets), taxable fixed income (US, non-US, global and emerging markets), municipal bonds, and cash management. From 1991 through 2005, Ms. Bovich served as the U.S. Representative to the United Nations Investment Committee, which advised a global portfolio of approximately $30 billion. Ms. Bovich is a member of the Economic Club of New York and an emeritus trustee of Connecticut College and chair of the Investment Sub-Committee for its endowment. Ms. Bovich received a B.A. in Economics from Connecticut College and a M.B.A. in Finance from New York University.

Director Qualification Highlights

The Board believes that Ms. Bovich's qualifications include her significant investment management experience and her experience serving as a trustee and board member.

Katie Beirne Fallon

Director since
2018

Committees
NCG, PR

Ms. Fallon has served as Global Head of Corporate Affairs for Hilton Worldwide Holdings Inc., a multinational hospitality company, since November 2016, where she is responsible for managing the company's communications, government relations and corporate responsibility efforts. Prior to Hilton, from 2014 to 2016, Ms. Fallon was Senior Advisor and Director of Legislative Affairs for President Obama. Before becoming the President's chief liaison to the Hill, Ms. Fallon served from May 2013 to December 2013 as President Obama's Deputy Communications Director at the White House where she devised and executed communications strategies for the President to promote his economic agenda across the country. From 2011 until May 2013, Ms. Fallon was the Staff Director of the Senate Democratic Policy and Communications Center in the U.S. Congress. Ms. Fallon's prior roles in government and politics include Legislative Director to Senator Chuck Schumer (D-NY), Deputy Staff Director of the Joint Economic Committee and Policy Director at the Democratic Senatorial Campaign Committee. Ms. Fallon received a B.A. in Government and International Studies from the University of Notre Dame and as a Marshall Scholar received a M.A. in Conflict Regulation from Queen's University Belfast, Northern Ireland and a M.Sc. in Comparative Politics from the London School of Economics.

Director Qualification Highlights

The Board believes that Ms. Fallon's qualifications include her significant experience in serving at a senior executive level with a multinational public company and her experience serving as a top leadership aide in the highest levels of the U.S. government.

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Jonathan D. Green

Director since
1997

Committees
PR (Chair), Compensation, Risk

Lead Independent Director

Mr. Green served as a special advisor to Rockefeller Group International, Inc., a wholly owned subsidiary of Mitsubishi Estate Company, Ltd., operating under the brand of the Rockefeller Group, from January 2011 until December 2014. He joined the Rockefeller Group in 1980 as Assistant Vice President and Real Estate Counsel. In 1983, he was appointed Vice President, Secretary and General Counsel, and in 1990 was elected Chief Corporate Officer. In 1995, he was named President and Chief Executive Officer of Rockefeller Group Development Corporation and Rockefeller Center Management Corporation, both subsidiaries of the Rockefeller Group. In 2002, Mr. Green was named President and Chief Executive Officer of Rockefeller Group International, Inc., becoming Vice Chairman in January 2009. He served as Vice Chairman until December 2010. In his role as Vice Chairman, Mr. Green was active in formulating the strategic planning for the company and its subsidiaries, which include Rockefeller Group Development Corporation, Rockefeller Group Investment Management, Rockefeller Group Technology Solutions, Inc. and Rockefeller Group Business Centers. Before joining the Rockefeller Group, Mr. Green was associated with the New York City law firm of Thacher, Proffitt & Wood. He also serves on the board of trustees of the Wildlife Conservation Society. Mr. Green graduated from Lafayette College and the New York University School of Law.

Director Qualification Highlights

The Board believes that Mr. Green’s qualifications include his significant experience as a chief executive, his diverse and significant background in the real estate industry and his legal expertise.

John H. Schaefer

Director since
2013

Committees
Risk (Chair), Audit, Compensation

Mr. Schaefer has over 40 years of financial services experience including serving as a member of the management committee of Morgan Stanley from 1998 through 2005. He was President and Chief Operating Officer of the Global Wealth Management division of Morgan Stanley from 2000 to 2005. Mr. Schaefer was Executive Vice President and Chief Strategic and Administrative Officer of Morgan Stanley from 1998 to 2000. From 1997 to 1998, he was Managing Director and Head of Strategic Planning and Capital Management. Prior to the 1997 merger of Dean Witter, Discover and Morgan Stanley, Mr. Schaefer was Executive Vice President, Investment Banking and Head of Corporate Finance at Dean Witter, a position he had held since 1991. He began his investment banking career at E.F. Hutton & Company in 1976. Mr. Schaefer served as a board member and chair of the audit committee of USI Holdings Corporation from 2008 through 2012. He received a B.B.A. in Accounting from the University of Notre Dame and a M.B.A. from the Harvard Graduate School of Business.

Director Qualification Highlights

The Board believes that Mr. Schaefer’s qualifications include his broad financial services management experience, including management of strategic planning, capital management, human resources, internal audit and corporate communications, as well as his board and audit committee experience.

INDEPENDENCE OF DIRECTORS

Annaly's Corporate Governance Guidelines and NYSE rules require that at least a majority of Board members are Independent Directors. The Board has adopted the definition of independent director set forth in Section 303A of the NYSE rules and has affirmatively determined that each Director (other than Ms. Denahan and Mr. Keyes) has no material relationships with the Company (either directly or as partner, stockholder or officer of an organization that has a relationship with us) and is therefore independent under all applicable criteria for independence in accordance with the standards set forth in the NYSE rules and Annaly's Corporate Governance Guidelines.

Two new, highly qualified female Independent Directors joined the Annaly Board in 2018

DIRECTOR NOMINATION PROCESS

The NCG Committee is responsible for identifying and screening nominees for Director and for recommending to the Board candidates for nomination for election or re-election to the Board and to fill Board vacancies. The NCG Committee also seeks to maintain an ongoing list of potential Board candidates. Nominees may be suggested by Directors, members of management, stockholders or professional search firms. In evaluating a Director nomination, the NCG Committee may review materials provided by the nominator, a professional search firm or any other party.

The NCG Committee seeks to maintain an ongoing list of potential Board candidates

DIRECTOR CRITERIA AND QUALIFICATIONS

The NCG Committee seeks to achieve a balance of knowledge, experience and capability on the Board and considers a wide range of factors when assessing potential Director nominees, including a candidate's background, skills, expertise, diversity, accessibility and availability to serve effectively on the Board. All candidates should (i) possess the highest personal and professional ethics, integrity and values, exercise good business judgment and be committed to representing the long-term interests of the Company and its stockholders, and (ii) have an inquisitive and objective perspective, practical wisdom and mature judgment. It is expected that all Directors will have an understanding of the Company's business and be willing to devote sufficient time and effort to carrying out their duties and responsibilities effectively.

BOARD REFRESHMENT AND DIVERSITY

On an annual basis, the NCG Committee evaluates the Board's overall composition, including Director tenure, and rigorously evaluates all Directors to ensure a continued match of their skill sets against the needs of the Company. The NCG Committee seeks to achieve a balance between the deep knowledge and understanding of Annaly's business that comes from longer-term service on the Board with the fresh ideas and perspectives that comes from having newer Directors on the Board. And although the NCG Committee does not have a formal diversity policy, it recognizes the importance of having a Board representing diverse backgrounds and a broad set of experiences at policy-making levels in business, finance, government, education, law and technology, and in other areas that are relevant to the Company's business and its status as a public company.

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The NCG Committee's annual evaluation of the Board's composition also informs Board succession planning, and contributed to the appointment, effective January 1, 2018, of two new Independent Directors (Ms. Fallon and Ms. Williams) with skills and backgrounds that complement the Company's highly qualified Board. Ms. Fallon and Ms. Williams were respectively identified as potential Director nominees by the CEO and another member of senior management. Ms. Fallon and Ms. Williams were nominated by the NCG Committee after an extensive and careful search was conducted, and numerous other candidates proposed by Directors, members of management and professional search firms were considered.

STOCKHOLDER RECOMMENDATION OF DIRECTOR CANDIDATES

Stockholders who wish the NCG Committee to consider their recommendations for Director candidates should submit their recommendations in writing to the Chief Legal Officer and Secretary at the Company's principal executive offices. Following verification of the stockholder status of persons proposing candidates, recommendations are aggregated and considered by the NCG Committee at a regularly scheduled or special meeting. If any materials are provided by a stockholder in connection with the nomination of a Director candidate, such materials are forwarded to the NCG Committee. Properly submitted recommendations by stockholders will receive the same consideration by the NCG Committee as other suggested nominees.

THE BOARD'S ROLE AND RESPONSIBILITIES

The Company is committed to maintaining a strong ethical culture and robust governance practices that benefit the long-term interests of stockholders, which include:

- 9 of 11 Directors are Independent
- Robust Lead Independent Director role
- Regular executive sessions of Independent Directors
- Independent key Board committees
- Board oversees a succession plan for the CEO and other senior executives
- The Board is a Full Board Member of the NACD
- 36% of Directors are women
- 4 of 11 Directors have tenure of less than 5 years
- Annual Board, committee and individual Director self-evaluations
- Over-boarding policy limits the number of outside boards on which Directors can serve
- 2 audit committee financial experts
- Majority vote standard for uncontested elections
- Annual stockholder advisory vote on executive compensation
- Stockholders may amend the bylaws by a majority of votes entitled to be cast
- Stockholders can submit questions for the Annual Meeting through an interactive pre-meeting forum
- Clawback policy with Manager
- Director and employee stock ownership guidelines
- Board created new Public Responsibility Committee
- Launched joint venture dedicated to supporting community development in underserved cities
- Member of the 2018 Bloomberg Gender-Equality Index

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BOARD OVERSIGHT OF RISK

Risk management begins with the Board, through review and oversight of the Company's risk management framework, and continues with executive management, through ongoing formulation of risk management practices and related execution in managing risk. The Board exercises its oversight of risk management primarily through its Risk Committee and Audit Committee. At least annually, the full Board reviews the Company's risk management program, which identifies and quantifies a broad spectrum of enterprise-wide risks and related action plans, with management

Assists the Board in its oversight of the Company's risk governance structure, risk management and risk assessment guidelines and policies, and risk appetite, including risk appetite levels and capital targets and limits	Assists the Board in its oversight of the quality and integrity of the Company's accounting, internal controls and financial reporting practices, including appointing the independent auditor and reviewing its qualifications, performance and independence, and compliance with legal and regulatory requirements

Responsible for day-to-day risk assessment and risk management. A series of management committees have decision-making responsibilities for risk assessment and risk management activities. These management committees include the Operating Committee, Enterprise Risk Committee, the Asset and Liability Committee, the Investment Committee and the Financial Reporting and Disclosure Committee

In addition to the risk oversight processes outlined above, the Board reviews its risk assessment of the Company's compensation policies and practices applicable to the Company's equity incentive plans with the Compensation Committee. For additional information on this review, please see the "Risks Related to Compensation Policies and Practices" section of this Proxy Statement. For additional information on the responsibilities of the Risk Committee and the Audit Committee, please see the "Board Committees" section of this Proxy Statement.

The Audit and Risk Committees have primary Board oversight of the Company's risk management framework

MANAGEMENT SUCCESSION PLANNING

The Board oversees and maintains a succession plan for the CEO and other senior executives. In carrying out this function, the Board endeavors to ensure that the Company's management has the capabilities to cause the Company to operate in an efficient and business-like fashion in the event of a vacancy in senior management, whether anticipated or sudden.

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BOARD COMMITMENT AND OVER-BOARDING POLICY

In order to provide sufficient time for informed participation in their Board responsibilities:

- Directors who also serve as chief executive officers or hold equivalent positions at other companies should not serve on more than two other boards of public companies in addition to the Company s Board;
- Other Directors should not serve on more than four other boards of public companies in addition to the Company s Board; and
- A member of the Audit Committee should not serve on the audit committee of more than two other public companies.

All Directors are currently in compliance with this policy. Directors are required to notify the Chairman of the Board and the chair of the NCG Committee in advance of accepting an invitation to serve on another public company board.

COMMUNICATIONS WITH THE BOARD

Stockholders and other persons interested in communicating with an individual Director (including the Lead Independent Director), the Independent Directors as a group, any committee of the Board or the Board as a whole, may do so by submitting such communication to:

Annaly Capital Management, Inc.
[Addressee]
1211 Avenue of the Americas
New York, NY 10036
Phone: 1-888-8 ANNALY
Facsimile: (212) 696-9809
Email: investor@annaly.com

The Legal Department reviews communications to the Directors and forwards those communications related to the duties and responsibilities of the Board to the appropriate parties. Certain items such as business solicitation or advertisements, product-related inquiries, junk mail or mass mailings, resumes or other job-related inquiries, spam and unduly hostile, threatening, potentially illegal or similarly unsuitable communications will not be forwarded.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Approval of Related Party Transactions

Each of Annaly's Directors, Director nominees and executive officers is required to report all transactions with the Company in which they or an immediate family member had or will have a direct or indirect material interest in an annual disclosure questionnaire and on an on-going basis. Management reviews these annual questionnaires and requires interim reports and, if determined to be necessary, discusses any reported transactions with the entire Board. Other than as discussed in this section, there were no reported transactions for 2017 and there is no transaction currently pending for 2018. The Board does not, however, have a formal written policy for approval or ratification of such transactions, and all such transactions are evaluated on a case-by-case basis. If management believes a transaction could be a related party transaction or could raise particular conflict of interest issues, it will discuss it with legal counsel, and if necessary, the Board will form an Independent committee that has the right to engage its own legal and financial counsel to evaluate, approve or ratify the transaction.

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Management Agreement

The Company has entered into a management agreement (the Management Agreement) with the Manager. Management of the Company is conducted by the Manager through the authority delegated to it in the Management Agreement and pursuant to the policies established by Annaly's Board. The Independent Directors periodically review the Management Agreement with the assistance of separate legal and financial advisors, who are selected and retained by the Independent Directors. The Management Agreement was effective as of July 1, 2013 and was amended in November 2014 and then amended and restated in April 2016, and may be further amended by agreement between the Manager and the Company.

The Management Agreement's current term ends on December 31, 2018 and will automatically renew for successive two-year terms unless at least two-thirds of the Independent Directors or the holders of a majority of the outstanding shares of the Company's common stock elect to terminate the agreement in their sole discretion and for any or no reason. At any time during the term or any renewal term, either party may deliver to the other party prior written notice of its intention to terminate the Management Agreement no less than one year prior to its proposed termination date or, but only in the event the Manager is the terminating party, such earlier date as determined by the Company in its sole discretion. There is no termination fee for a termination of the Management Agreement by either the Manager or the Company.

See also Disclosure Enhancements on page 42 for a discussion of compensation paid by the Manager to the NEOs.

The Management Agreement provides that during its term and, in the event of termination of the Management Agreement by the Manager without cause, for a period of one year following such termination, the Manager will not, without the Company's prior written consent, manage any REIT, which engages in the management of mortgage-backed securities in any geographical region in which the Company operates.

Pursuant to the terms of the Management Agreement, the Company pays the Manager a monthly management fee equal to 1/12th of 1.05% of the Company's stockholders' equity, as defined in the Management Agreement, for its management services. The Company incurred approximately $164.3 million in management fees under the Management Agreement during the year ended December 31, 2017.

The Manager

The Manager is a Delaware limited liability company and is indirectly owned by certain members of senior management. For additional information about the Manager, please see Management Structure , Compensation Paid by the Manager to the Named Executive Officers and Compensation Discussion and Analysis.

The management fee of 1.05% of stockholders' equity (as defined in the Management Agreement) compares favorably to the industry average

Board Structure and Processes

BOARD LEADERSHIP STRUCTURE

The Board believes that whether to have the same person occupy the offices of Chairman of the Board and CEO should be decided by the Board, from time to time, in its business judgment after considering relevant factors, including the specific needs of the business and what is in the best interests of the Company at that point in time. Under the Corporate Governance Guidelines, the Independent Directors will annually select an Independent Director to serve as Lead Independent Director when the CEO and Chairman of the Board roles are combined or if the Chairman is not otherwise independent. Currently, Mr. Keyes serves as Chairman, CEO and President, while Mr. Green serves as Lead Independent Director.

The Board believes that the current leadership structure provides effective independent oversight of management, while allowing both the Board and management to benefit from Mr. Keyes's day-to-day familiarity with the Company's business.

The Lead Independent Director has significant authority and responsibilities

THE CHAIRMAN OF THE BOARD

- Presides at full meetings of the Board and the Annual Meeting of Stockholders
- Meets with the Lead Independent Director to receive feedback from executive sessions of Independent Directors
- Communicates with all Directors on key issues and concerns outside of Board meetings
- Advises on the selection of committee chairs
- Draws on his knowledge of the Company's business, operations, industry and competitive developments in setting Board agendas
- Consults with the Lead Independent Director to ensure that Board agendas and information empower the Board to fulfill its responsibilities
- Has authority to call special meetings of the Board if necessary and otherwise updates Directors between meetings through one-on-one or group phone calls
- Authorizes the retention of advisors and consultants who report to management
- Presents the Company's message and strategy to stockholders, employees and regulators

THE LEAD INDEPENDENT DIRECTOR

- Presides at all meetings of the Board in the absence of or at the request of the Chairman, including executive sessions of Independent Directors
- Facilitates communication between the Independent Directors and the Chairman of the Board and CEO
- Advises on the selection of committee chairs
- Approves the quality, quantity and timeliness of information sent to the Board
- Approves Board meeting agendas
- Approves Board meeting schedules to assure there is sufficient time for discussion of all agenda items
- Has authority to call meetings of the Independent Directors
- Authorizes the retention of outside advisors and consultants who report directly to the Board
- If requested by stockholders, ensures that he is available, when appropriate, for consultation and direct communication with major stockholders

The Board believes that its independent oversight function is further enhanced by its policy to hold regular executive sessions of the Independent Directors without management present and the fact that a majority of the Company's Directors (and every member of the Board's three key committees) is independent.

EXECUTIVE SESSIONS OF INDEPENDENT DIRECTORS

The Corporate Governance Guidelines require that the Board have at least two regularly scheduled executive sessions of Independent Directors each year. These executive sessions, which are designed to promote unfettered discussions among the Independent Directors, are presided over by the Lead Independent Director, or in his or her absence, the chair of the Compensation Committee. During 2017, the Independent Directors, without the participation of Board members who are members of management, held five executive sessions.

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BOARD AND COMMITTEE EVALUATIONS

The Lead Independent Director and the NCG Committee are responsible for overseeing an annual self-evaluation process for the Board. The self-evaluation process seeks to identify specific areas, if any, that need improvement or strengthening in order to increase the effectiveness of the Board as a whole and its members and committees. In 2018, the Board adopted an enhanced Board self-evaluation process that includes annual assessments of the full Board, each Board committee and individual Directors. Such assessments will be facilitated by an external evaluator on a periodic basis. In addition to these formal self-evaluations, the Board considers its performance as well as that of its members and committees on an ongoing basis and shares relevant feedback with management.

DIRECTOR ORIENTATION AND CONTINUING EDUCATION

The Board believes that Director orientation and continuing education is critical to the Board's ability to fulfill its responsibilities in a dynamic and constantly evolving business environment. New Directors participate in a robust onboarding process, which includes extensive training materials and personal briefings by senior management on the Company's strategic plans, financial statements, and key policies and practices. In addition, the Company encourages Directors to participate in external continuing director education programs, and the Company provides reimbursement for related expenses. Continuing director education is also provided during Board meetings and as stand-alone information sessions outside of meetings. In line with the Company's commitment to continuing board education, in 2017, the Board became a Full Board Member of the NACD, which gives Directors access to an extensive menu of board education programs, along with research on governance trends and board practices.

GOVERNING DOCUMENTS

Code of Business Conduct and Ethics

The Board has adopted a Code of Business Conduct and Ethics (the "Code of Conduct"), which sets forth the basic principles and guidelines for resolving various legal and ethical questions that may arise in the workplace and in the conduct of business. This Code of Conduct is applicable to Annaly's Directors, executive officers and employees, and is also a "code of ethics" as defined in Item 406(b) of Regulation S-K. The Company will make any legally required disclosures regarding amendments to, or waivers of, provisions of the Code of Conduct on the Company's website.

Corporate Governance Guidelines

The Board has adopted Corporate Governance Guidelines that, in conjunction with the charters of the Board committees, provide the framework for governance of the Company.

Other Governance Policies

Annaly's Directors, executive officers and employees are also subject to the Company's other governance policies, including a Foreign Corrupt Practices Act and Anti-Bribery Compliance Policy, an Insider Trading Policy, and a Regulation FD Policy.

Where You Can Find the Code of Conduct, Corporate Governance Guidelines and Committee Charters

The Code of Conduct, Corporate Governance Guidelines, Compensation Committee Charter, Audit Committee Charter, NCG Committee Charter, Public Responsibility Committee Charter and Risk Committee Charter are available on Annaly's website (www.annaly.com). The Company will provide copies of these documents free of charge to any stockholder who sends a written request to Investor Relations, Annaly Capital Management, Inc., 1211 Avenue of the Americas, New York, NY 10036.

BOARD COMMITTEES

The Board has five standing committees: the Audit Committee, the Compensation Committee, the NCG Committee, the Risk Committee and the recently-formed Public Responsibility Committee.

As part of the Board's continuing review of its Board committee structure and responsibilities, and in response to dialogue with stockholders, the Board created the new Public Responsibility Committee in late 2017. At the same time, the Board reorganized the membership of most of its other committees.

The Board created the new Public Responsibility Committee in late 2017

The table below shows the current membership of each Board committee and number of meetings of each committee held in 2017.

Director	Audit Committee	Compensation Committee	NCG Committee	PR Committee	Risk Committee
Francine J. Bovich				•	
Kevin P. Brady			•		•
Wellington J. Denahan				•	•
Katie Beirne Fallon			•	•	
Jonathan D. Green(1)		•			•
Michael Haylon	•				•
E. Wayne Nordberg	•	•	•		
John H. Schaefer	•	•			
Donnell A. Segalas			•	•	
Vicki Williams	•	•			
2017 Meetings:	6	2	4	0(2)	5

• Member Chairperson

(1) Mr. Green serves as the Lead Independent Director. For more details, see page 30.

(2) The Public Responsibility ("PR") Committee did not hold any meetings in 2017, as it was established in November 2017.

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AUDIT COMMITTEE

Committee Members:
Kevin P. Brady (Chair)
Michael Haylon
E. Wayne Nordberg
John H. Schaefer
Vicki Williams

Number of Meetings:
6

Key Responsibilities:

- Appoints the independent registered public accounting firm and reviews its qualifications, performance and independence
- Reviews the plan and results of the auditing engagement with the Chief Financial Officer and the independent registered public accounting firm
- Oversees internal audit activities
- Oversees the quality and integrity of financial statements and financial reporting process
- Oversees the adequacy and effectiveness of internal control over financial reporting
- Reviews and pre-approves the audit and permitted non-audit services and proposed fees of the independent registered public accounting firm
- Prepares the report of the Audit Committee required by the rules of the SEC to be included in the Proxy Statement

Each member of the Audit Committee is financially literate and independent of the Company and management under the applicable rules of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the listing standards of the NYSE. The Board has designated Messrs. Brady and Haylon as "audit committee financial experts" under applicable SEC rules.

For more information on the Audit Committee's responsibilities and activities, see the "Board Oversight of Risk" and "Report of the Audit Committee" sections of this Proxy Statement.

COMPENSATION COMMITTEE

Committee Members:
Donnell A. Segalas (Chair)
Jonathan D. Green
E. Wayne Nordberg
John H. Schaefer
Vickie Williams

Number of Meetings:
2

Key Responsibilities:

- Evaluates the performance of the Manager and the terms of the Management Agreement
- Reviews the fees payable to the Manager
- Administers the Company's equity incentive plans and other equity compensation programs
- Reviews the form and amount of Director compensation
- Evaluates the performance of the Company's officers
- Reviews and discusses with management the Compensation Discussion and Analysis and related disclosures as required by the SEC
- Prepares the report of the Compensation Committee required by the rules of the SEC to be included in the Proxy Statement

Each member of the Compensation Committee is independent of the Company and management under the listing standards of the NYSE.

For more information on the Compensation Committee's responsibilities and activities, see the "Compensation of Directors" and "Compensation Discussion and Analysis" sections of this Proxy Statement.

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NCG COMMITTEE

Committee Members:
Francine J. Bovich
(Chair)
Kevin P. Brady
Katie Beirne Fallon
E. Wayne Nordberg
Donnell A. Segalas
Number of Meetings:
4

Key Responsibilities:

- Develops and recommends criteria for considering potential Board candidates
- Identifies and screens individuals qualified to become Board members, and recommends to the Board candidates for nomination for election or re-election to the Board and to fill Board vacancies
- Develops and recommends to the Board a set of corporate governance guidelines and recommends modifications as appropriate
- Provides oversight of the evaluation of the Board and management
- Considers other corporate governance matters, such as Director retirement policies, management succession plans and potential conflicts of interest of Board members and senior management, and recommends changes as appropriate

Each member of the NCG Committee is independent of the Company and management under the applicable listing standards of the NYSE.

For more information on the NCG Committee's responsibilities and activities, see the "Director Nomination Process," "Director Criteria and Qualifications", "Board Refreshment and Diversity" and "Stockholder Recommendation of Director Candidates" section of this Proxy Statement.

PUBLIC RESPONSIBILITY COMMITTEE

Committee Members:
Jonathan D. Green
(Chair)
Francine J. Bovich
Wellington J. Denahan
Katie Beirne Fallon
Donnell A. Segalas
Number of Meetings:
N/A[1]

Key Responsibilities:
Assists the Board in its oversight of the Company's items of public responsibility, including:

- corporate philanthropy
- social impact investments
- sustainability initiatives
- corporate culture and reputation
- public policy initiatives

For more information on the formation of the Public Responsibility Committee, see the "Stockholder Outreach and Results of 2017 Say-on-Pay Vote" section of this Proxy Statement.

RISK COMMITTEE

Committee Members:
John H. Schaefer (Chair)
Kevin P. Brady
Wellington J. Denahan
Jonathan D. Green
Michael Haylon
Number of Meetings:
5

Key Responsibilities:
Assists the Board in its oversight of the Company's:

- risk governance structure
- risk management and risk assessment guidelines and policies regarding capital, liquidity and funding risk, investment/market risk, credit risk, counterparty risk, operational risk, compliance, regulatory and legal risk and such other risks as necessary to fulfill the committee's duties and responsibilities
- risk appetite, including risk appetite levels and capital targets and limits

For more information on the Risk Committee's responsibilities and activities, see the "Board Oversight of Risk" section of this Proxy Statement.

(1) The Public Responsibility Committee did not hold any meetings in 2017, as it was established in November 2017.

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DIRECTOR ATTENDANCE

During 2017, the Board held 13 meetings. Each Director attended at least 75% of the aggregate number of meetings held by the Board and each committee on which the Director served during the period he or she was on such committee.

The Company expects each member of the Board to attend the Annual Meeting. All of the Company's then-Directors attended Annaly's 2017 annual meeting of stockholders (the "2017 Annual Meeting"). Ms. Fallon and Ms. Williams were appointed as Directors effective January 1, 2018 and, therefore, did not attend the 2017 Annual Meeting.

COMPENSATION OF DIRECTORS

The Company compensates the Independent Directors. Any Director who is also an employee or owner of the Manager does not receive compensation for serving on the Board. The Compensation Committee is responsible for reviewing, and recommending to the Board, the form and amount of compensation paid to the Independent Directors.

The compensation elements paid to the Independent Directors for service on the Board and its committees for 2017 is set forth below:

Annual Compensation Element	Amount
Annual Cash Retainer	$100,000
Deferred Stock Unit ("DSU") Grant	$135,000 in DSUs
Lead Independent Director Retainer	$30,000
Committee Member Retainer	$8,000 – Audit Committee
	$7,000 – Compensation Committee
	$7,000 – Risk Committee
	$5,000 – NCG Committee
Committee Chair Retainer(1)	$20,000 – Audit Committee
	$10,000 – Compensation Committee
	$10,000 – Risk Committee
	$10,000 – NCG Committee

(1) Committee Chairs received Committee Chair Retainers in addition to, and not in lieu of, Committee Member Retainers. No retainers for service as a Member or Chair of the Public Responsibility Committee were paid in 2017, as the committee did not meet during such year, having been established in November 2017.

Each DSU is equivalent in value to one share of the Company's common stock. DSUs are granted on the date of the annual stockholder meeting and vest immediately. DSUs convert to shares of the Company's common stock one year after the date of grant unless the Director elects to defer the settlement of the DSUs to a later date. DSUs do not have voting rights. DSUs pay dividend equivalents in either cash or additional DSUs at the election of the Director. The Independent Directors are also eligible to receive other stock-based awards under the Company's equity incentive plan.

The Company reimburses the Directors for their reasonable out-of-pocket travel expenses incurred in connection with their attendance at full Board and committee meetings.

Director Stock Ownership Guideline

In 2016, the Board increased the stock ownership guideline for the Independent Directors to provide that each Independent Director should strive to own an amount of the Company's common stock equal to five times the annual cash retainer. Shares counting toward the guideline include shares that are owned outright, DSUs and any other shares held in deferral accounts. To facilitate achievement of the guideline, the Board has adopted and implemented a "retention ratio" that requires Independent Directors to retain and hold 50% of the net profit shares from DSUs until the specified ownership level is achieved. As of March 31, 2017, all of the Independent Directors have met or are on their way to meeting their stock ownership guideline.

In 2016, the Board increased the stock ownership guideline for Independent Directors to 5x the annual cash retainer, which is currently $100,000

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Role of the Independent Compensation Consultant

During 2017, the Compensation Committee retained an independent compensation consultant, Frederic W. Cook & Co. ("F. W. Cook"), to assist the Compensation Committee in its review of the compensation arrangements provided to the Independent Directors. The Compensation Committee considered F. W. Cook's independence in light of SEC regulations and NYSE listing standards. The Compensation Committee discussed all relevant factors and concluded that no conflict of interest exists that would prevent F. W. Cook from independently representing the Compensation Committee.

Director Compensation

The table below summarizes the compensation paid by the Company to the Independent Directors for the fiscal year ended December 31, 2017.

Name(1)	Fees Earned or Paid in Cash	Stock Awards(2)	Total
Francine J. Bovich	$113,000	$135,000	$248,000
Kevin P. Brady	$140,000	$135,000	$275,000
Jonathan D. Green	$154,000	$135,000	$289,000
Michael Haylon	$115,000	$135,000	$250,000
E. Wayne Nordberg	$122,000	$135,000	$257,000
John H. Schaefer	$122,000	$135,000	$257,000
Donnell A. Segalas	$122,000	$135,000	$257,000

(1) Ms. Fallon and Ms. Williams were appointed to the Board effective January 1, 2018 and did not receive any compensation for the fiscal year ended December 31, 2017.

(2) The amounts in this column represent the aggregate grant date fair value of the DSU awards, computed in accordance with FASB ASC Topic 718 and based on the closing price of the Company's common stock on the date of grant. DSUs are vested at grant and accrue dividend equivalents as additional DSUs or cash at the election of the Director.

The following table sets forth information with respect to the aggregate unexercised option awards at December 31, 2017 of each of the Independent Directors. All such option awards have vested. Options are no longer granted as part of the Company's Director compensation program.

Name	Unexercised Option Awards at 12/31/17
Francine J. Bovich	—
Kevin P. Brady	42,500
Jonathan D. Green	90,000
Michael Haylon	75,000
E. Wayne Nordberg	90,000
John H. Schaefer	—
Donnell A. Segalas	77,500

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Management

The following table sets forth certain information with respect to the Company's executive officers, all of whom are indirect owners and/or employees of the Manager:

Name	Age	Title
Kevin G. Keyes	50	Chairman, Chief Executive Officer and President
Glenn A. Votek	59	Chief Financial Officer
David L. Finkelstein	45	Chief Investment Officer
Timothy P. Coffey	44	Chief Credit Officer
Anthony C. Green	43	Chief Legal Officer and Secretary

Biographical information on Mr. Keyes is provided above under the heading "Election of Directors." Certain biographical information for Messrs. Votek, Finkelstein, Coffey and Green is set forth below.

Glenn A. Votek has served as Chief Financial Officer of Annaly since August 2013. Mr. Votek also served as Chief Financial Officer of Fixed Income Discount Advisory Company, a former wholly-owned subsidiary of the Company, from August 2013 until October 2015 and as Annaly's Chief Administrative Officer from May 2013 until August 2013. Mr. Votek joined Annaly in May 2013 from CIT Group where he was an Executive Vice President and Treasurer since 1999 and President of Consumer Finance since 2012. Prior to that, Mr. Votek worked at AT&T and its finance subsidiary from 1986 until 1999 in various financial management roles. Mr. Votek has a B.S. in Finance and Economics from the University of Arizona/Kean College and a M.B.A. in Finance from Rutgers University.

David L. Finkelstein has served as Chief Investment Officer of Annaly since November 2016. Mr. Finkelstein previously served as Annaly's Chief Investment Officer, Agency and RMBS beginning in February 2015 and as Annaly's Head of Agency Trading beginning in August 2013. Prior to joining Annaly, Mr. Finkelstein served for four years as an Officer in the Markets Group of the Federal Reserve Bank of New York where he was the primary strategist and policy advisor for the MBS purchase program. Mr. Finkelstein has over 20 years of experience in fixed income investment. Prior to the Federal Reserve Bank of New York, Mr. Finkelstein held Agency MBS trading positions at Salomon Smith Barney, Citigroup Inc. and Barclays PLC. Mr. Finkelstein received his B.A. in Business Administration from the University of Washington and his M.B.A. from the University of Chicago, Booth School of Business. Mr. Finkelstein also holds the Chartered Financial Analyst® designation.

Timothy P. Coffey has served as Chief Credit Officer of Annaly since January 2016. Mr. Coffey served as Annaly's Head of Middle Market Lending from 2010 until January 2016. Mr. Coffey has over 20 years of experience in leveraged finance and has held a variety of origination, execution, structuring and distribution positions. Prior to joining Annaly in 2010, Mr. Coffey served as Managing Director and Head of Debt Capital Markets in the Leverage Finance Group at Bank of Ireland. Prior to that, Mr. Coffey held positions at Scotia Capital, the holding company of Saul Steinberg's Reliance Group Holdings, and SC Johnson International. Mr. Coffey received his B.A. in Finance from Marquette University.

Anthony C. Green has served as Chief Legal Officer and Secretary of Annaly since March 2017. Mr. Green previously served as Annaly's Deputy General Counsel from 2009 until February 2017. Prior to joining Annaly, Mr. Green was a partner in the Corporate, Securities, Mergers & Acquisitions Group at the law firm K&L Gates LLP. Mr. Green has over 18 years of experience in corporate and securities law. Mr. Green holds a B.A. in Economics and Political Science from the University of Pennsylvania and a J.D. and LL.M. in International and Comparative Law from Cornell Law School.

STOCK PURCHASES BY EXECUTIVE OFFICERS SINCE 2011

Since 2011, the executive officers have purchased over 1.4 million shares of the Company's common stock (including open market purchases, dividend reinvestments, and option exercises) with an aggregate purchase price of $16.3 million as set forth in the table below.

Executive Officer	Shares Purchased	Purchase Price(1)	
Kevin G. Keyes	934,779	$	10,560,000
Glenn A. Votek	93,597	$	1,017,000
David L. Finkelstein	300,000	$	3,370,000
Timothy P. Coffey	30,000	$	304,000
Anthony C. Green	101,000	$	1,085,000
TOTAL	**1,459,376**	**$**	**16,336,000**

(1) Rounded to the nearest thousand.

No NEO has ever sold shares of the Company's common stock

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Management Structure

OVERVIEW

Following the management externalization transaction (the "Externalization"), which was approved by holders of approximately 83% of the Company's stock on May 23, 2013, the Company became externally-managed by the Manager. Pursuant to the terms of the Management Agreement, the Company pays the Manager a management fee and the Manager pays all of the compensation to Annaly's management personnel (including the NEOs). The Compensation Committee annually reviews the management fee and the performance of the Manager, including the achievements discussed beginning on page 7. The Independent Directors then consider the Compensation Committee's recommendations when determining whether to renew or amend the terms of the Management Agreement. Based on the review and factors described in more detail below, the Independent Directors have determined that the Management Agreement continues to be in the best interests of the Company and its stockholders. For additional information, see "Certain Relationships and Related Party Transactions", "Compensation Paid by the Manager to the Named Executive Officers" and "Compensation Discussion and Analysis."

The Management Agreement compares favorably to the management agreements of the Company's externally-managed peers

MANAGEMENT AGREEMENT TERMS

The Compensation Committee believes that the terms and conditions of the Management Agreement compare favorably to the terms and conditions that exist between Annaly's externally-managed mREIT peers and their respective managers. In particular, as illustrated by the table below, when compared to the median for the peer comparison, (i) the management fee paid to the Manager is lower as a percentage of stockholders' equity, (ii) the term of the Management Agreement was of a shorter duration, and (iii) the Management Agreement has no termination fee, which is expressed in the table below as a multiple of trailing average annual management fees.

	Mean	Median	Min	Max	Annaly
Agency Residential REITs					
Base management fee[1]	1.29%	1.29%	1.20%	1.37%	1.05%
Initial term in years	6.0	6.0	2.0	10.0	2.0
Termination fee multiple[2]	4.2x	4.2x	3.0x	5.3x	None
Incentive fee	None	None	None	None	None
Commercial REITs					
Base management fee	1.50%	1.50%	1.50%	1.50%	1.05%
Initial term in years	2.8	3.0	2.0	3.0	2.0
Termination fee multiple	3.2x	3.0x	3.0x	4.0x	None
Incentive fee[3]	20% above 8% hurdle	20% above 8% hurdle	None	25% above 8% hurdle	None
Non-Agency Residential/Hybrid REITs					
Base management fee[4]	1.49%	1.50%	1.41%	1.50%	1.05%
Initial term in years	4.0	3.0	1.0	15.0	2.0
Termination fee multiple[5]	2.9x	3.0x	1.0x	5.0x	None
Incentive fee[6]	N/A	N/A	~15% above ~12% hurdle	35% above 12.5% hurdle	None

Source: Public filings as of year ended December 31, 2017. All base management fees are calculated as a percentage of stockholders' equity and all termination fees are calculated as a multiple of the average annual base management fee during the prior 24-month period, except as otherwise specified below. Agency Residential REITs represent the externally-managed agency mortgage REITs included in the BBREMTG Index as of December 31, 2017 and includes Anworth Mortgage Asset Corporation ("ANH") and ARMOUR Residential REIT, Inc. ("ARR"). Commercial REITs represent the externally-managed commercial mortgage REITs included in the BBREMTG Index as of December 31, 2017 and includes Blackstone Mortgage Trust, Inc. ("BXMT"), Ares Commercial Real Estate Corp. ("ACRE"), Resource Capital Corp. ("RSO"), Apollo Commercial Real Estate Finance, Inc. ("ARI"), Starwood Property Trust ("STWD") and Sutherland Asset Management ("SLD"). Non-Agency Residential / Hybrid REITs represents the externally-managed non-agency

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residential and hybrid mortgage REITs included in the BBREMTG Index as of December 31, 2017 and includes New Residential Investment Corp. ("NRZ"), Two Harbors Investment Corp. ("TWO"), Invesco Mortgage Capital, Inc. ("IVR"), PennyMac Mortgage Investment Trust ("PMT"), MTGE Investment Corp. ("MTGE"), New York Mortgage Trust Inc. ("NYMT"), AG Mortgage Investment Trust, Inc. ("MITT"), Orchid Island Capital, Inc. ("ORC"), Western Asset Mortgage ("WMC"), Great Ajax Corp ("AJX"), Cherry Hill Mortgage Investment Corp. ("CHMI"), Ellington Residential Mortgage REIT ("EARN"), and Five Oaks Investment Corp. ("OAKS").

(1) For ARR, base management fee is calculated as 1.50% of gross equity raised up to $1.0 billion plus 0.75% of gross equity raised in excess of $1.0 billion.

(2) ARR's termination fee is calculated as the greater of (a) the base management fee calculated prior to the effective date of agreement termination for the remainder of the term or (b) 3x the base management fee during the preceding full 12 months.

(3) Of the six Commercial REITs, five have incentive fees in addition to their base management fees. STWD and RSO have incentive fees of 20% above an 8% hurdle. BXMT has an incentive fee of 20% above a 7% hurdle. RSO has an incentive fee of 25% above an 8% hurdle. SLD has an incentive fee of 15% above an 8% hurdle. For purposes of this table, the calculation of the mean includes only the five Commercial REITs that have incentive fees.

(4) NYMT only pays base management and incentive fees with respect to its distressed residential loan strategy. NYMT's base management fee is calculated as 1.50% of invested capital in distressed residential mortgage loans.

(5) NRZ's termination fee is calculated using the prior 12-month period. Pursuant to the terms of its management agreement, PMT's termination fee is calculated as a multiple of the base management fee and a performance incentive fee. For purposes of this table, any impact from this performance incentive fee on PMT's termination fee multiple has been disregarded.

(6) Of the 13 Non-Agency Residential/Hybrid REITs, four have incentive fees in addition to their base management fees. NRZ has an incentive fee of 25% above a 10% hurdle. PMT has an incentive fee with a sliding scale beginning above 8%. NYMT has an incentive fee of 35% above a 12.5% hurdle. AJX has an incentive fee of 20% above an 8% hurdle. For purposes of this table, the calculation of the mean includes only the four Non-Agency Residential/Hybrid REITs that have incentive fees.

STRUCTURE AND AMOUNT OF THE MANAGEMENT FEE

The Compensation Committee annually reviews both the structure of the management fee as well as the amount of such fee to determine whether they incentivize the Manager to work towards the Company's desired goals to the benefit of long-term stockholder interests. The Compensation Committee has determined that the use of a management fee formulated as a percentage of stockholders' equity (as defined in the Management Agreement) represents a responsible and prudent method of compensating the Manager. In particular, in the context of an mREIT that uses leverage as a key component of its business strategy, the Compensation Committee believes that providing for a contractually required payment structured as an "incentive fee" may misalign the goals of the Manager from those of the stockholders.

Moreover, the Compensation Committee believes that a management fee that is based upon stockholders' equity (along with the stock ownership guidelines discussed on page 47) aligns the management team to the goals of the Company, and that focusing the management fee on the preservation and growth of the Company's book value incentivizes the Manager to achieve long-term performance that protects stockholders' equity as realized losses decrease such equity and, ultimately, the management fee.

Additionally, for the Manager to earn a larger management fee, the stockholders' equity of the Company would need to increase. As a result, the growth of the stockholders' equity is an alignment between the interests of stockholders and the Manager. Further, this alignment is stronger in the REIT industry than in other businesses. REIT regulations require the Company to pay at least 90% of its earnings to stockholders as dividends. As a result, unlike most companies, Annaly cannot grow its business and book value by reinvesting its earnings. This places a unique market discipline on the Company.

The Compensation Committee annually reviews the structure and amount of the management fee to determine whether it appropriately incentivizes the management team

The Compensation Committee also believes that the structure of the management fee is more favorable to the Company's stockholders than if the fee was based on total assets under management, which could potentially incentivize an external manager to excessively leverage assets under management in an attempt to increase short-term incentive payouts.

Clawback for the Management Fee

Pursuant to the 2016 amendment and restatement of the Management Agreement, the Company is entitled to receive reimbursement from the Manager if the Board determines that a computation error (regardless of the reason for or amount of such error) resulted in the overpayment of a management fee to the Manager.

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CONTINUED COST SAVINGS RELATED TO THE EXTERNALIZATION

The Compensation Committee believes that the Externalization has materially reduced the Company's compensation-related costs. When comparing the management fees the Company paid for the fiscal years ended December 31, 2013, 2014, 2015, 2016 and 2017 against the estimated compensation costs (including tax costs) the Company would have paid for the same period if those costs remained what they were in 2012, management estimates that the Externalization has resulted in total compensation savings, including tax savings, (calculated in accordance with GAAP) of approximately $276 million.

As illustrated by the table below, the management fee for each of 2013[(1)], 2014, 2015, 2016 and 2017 is significantly lower than the Company's 2012 compensation expenses (which is represented by the dark gray line):

($ in thousands)

(1) Although the Manager commenced management of Annaly on July 1, 2013, the Company's stockholders received the benefit of the compensation savings created by the Externalization for the entire 2013 calendar year pursuant to a pro forma adjustment to the 2013 management fee. The Manager calculated a pro forma management fee, which was the management fee as if the Company was managed by the Manager from January 1, 2013 until July 1, 2013, and the actual amount of cash compensation paid to all of Annaly's employees from January 1, 2013 until July 1, 2013 reduced the amount of the management fee owed to the Manager.

(2) Assumes compensation costs for each of 2013, 2014, 2015, 2016 and 2017 would have remained what they were in 2012 (the last full year prior to the Externalization).

(3) Gray shaded area represents compensations savings (exclusive of tax savings).

ANNUAL REVIEW OF MANAGER PERFORMANCE AND MANAGEMENT FEE CONSIDERATIONS

The Compensation Committee annually reviews the Manager's performance and management fee against both historical results and the Company's mREIT peers, based on a number of metrics, including those discussed above in the "Proxy Summary" and the expense ratios discussed below.

The Compensation Committee annually reviews both the Manager's performance and the terms and conditions of the Management Agreement

Peer Comparison of Operating Expenses as a Percentage of Average Assets and Average Stockholders' Equity

The Compensation Committee reviews the Company's total operating expenses (including the management fee), as a percentage of both average assets and average stockholders' equity, among other metrics. The Compensation Committee believes these ratios, which allow comparison of the Manager's performance against the Company's internally- and externally-managed mREIT peers, measure the extent to which the Manager operates in an economically efficient manner.

2012	2013	2014	2015	2016	2017	Average
0.19%	0.22%	0.24%	0.25%			