

Annaly Capital Management, Inc. (NYSE: NLY; New York, NY) has agreed to acquire Hatteras Financial Corp. (NYSE: HTS; Winston-Salem, NC)

Deal Value: \$1.5 Billion

Sandler O'Neill + Partners, L.P. served as co-financial advisor to Annaly Capital Management, Inc. in this transaction. This transaction represents Sandler O'Neill's 93rd financial services transaction nationwide since January 1, 2015, representing \$26.1 billion in aggregate transaction value.⁽¹⁾

New York, New York and Winston-Salem, North Carolina—(BUSINESS WIRE)—Annaly Capital Management, Inc. ("Annaly") (NYSE:NLY) and Hatteras Financial Corp. ("Hatteras") (NYSE:HTS) today announced the signing of a definitive merger agreement under which Annaly will acquire Hatteras for consideration to be paid in cash and shares of Annaly common stock, which values Hatteras at \$15.85 per share of Hatteras common stock based upon the closing price of Annaly common stock on April 8, 2016. The value of the consideration represents a premium of approximately 24% to the 60-day volume-weighted average price of Hatteras common stock ending on April 8, 2016 and a multiple of 0.85x Hatteras' estimated book value per share as of February 29, 2016.

Subject to the terms and conditions of the merger agreement, a wholly-owned subsidiary of Annaly will commence an exchange offer to acquire all outstanding shares of Hatteras common stock. For each share of Hatteras common stock validly tendered in the exchange offer or converted pursuant to the second-step merger described below, Hatteras shareholders may elect to receive: (a) \$5.55 in cash and 0.9894 shares of Annaly common stock; (b) \$15.85 in cash (the "Cash Consideration Option"); or (c) 1.5226 shares of Annaly common stock (the "Stock Consideration Option"). Hatteras shareholders who elect the Cash Consideration Option or Stock Consideration Option will be subject to proration, in each of the exchange offer and the subsequent second step merger, so that the aggregate consideration will consist of approximately 65% of Annaly's common stock and approximately 35% in cash. In addition to the above consideration, Annaly would assume the existing notional \$287.5 million in Hatteras 7.625% Series A cumulative redeemable preferred stock.

The transactions contemplated by the merger agreement, including the exchange offer and the merger, have been unanimously approved by the Board of Directors of Annaly and unanimously approved by the Board of Directors of Hatteras upon the unanimous recommendation of the Special Committee of the Hatteras Board of Directors, which is comprised entirely of independent directors (the "Hatteras Special Committee").

"This strategic transaction represents a unique and sizeable value creation opportunity for our shareholders," commented Kevin Keyes, CEO and President of Annaly. "With the acquisition of Hatteras, we significantly grow our diversified portfolio and broaden our investment options, further fortifying Annaly's position as the market leading mortgage REIT." Wellington Denahan, Chairman of Annaly, added: "We are tremendously excited to announce this partnership today. Both Hatteras and Annaly are seasoned veterans in the sector, and we are confident this acquisition strengthens our ability to deliver superior returns to our shareholders over the long-term."

Michael R. Hough, Chairman and CEO of Hatteras, said: "We are excited by the opportunity to join the Annaly platform and believe our diversification efforts are greatly enhanced by the industry-leading business Annaly has built. The complementary nature of this transaction should enhance the risk-adjusted value proposition we've always strived for." Jeffrey D. Miller, Lead Independent Director of Hatteras, added: "The strategic combination with Annaly will offer our shareholders increased scale, diversification and liquidity, which we believe will result in higher and more sustainable shareholder value over the long-term."

About Annaly Capital Management, Inc.:

Founded in 1997 as a real estate investment trust (REIT), Annaly is a leading mortgage REIT listed on the New York Stock Exchange. Annaly's principal business objectives are to generate net income for distribution to shareholders and preserve capital through the prudent selection and management of its investments. Since inception, Annaly has paid over \$13 billion in dividends to shareholders through real estate investments, primarily agency mortgage-backed securities.

About Hatteras Financial Corp.:

Hatteras Financial is a REIT formed in 2007 to own and manage a portfolio of residential mortgage investments, primarily in residential mortgage securities, with a focus on those secured by adjustable-rate mortgage loans on single-family residences.

(1) Source: SNL Financial, includes financial services transactions since 2015; excludes terminated transactions and self-advisory roles.

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