ALY
MANAGEMENT, INC.

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1997 ANNUAL REPORT

LETTER TO SHAREHOLDERS

To our fe//ow Shareholders: I'm pleased to have this opportunity to review Annaly Mortgage Management, Inc.'s remarkable first year as a public company and to thank the management, directors, staff and shareholders who helped to make 1997 such a successful year for us. The challenges during 1997 were many, but Annaly succeeded in recognizing exceptional growth and strong results in a period when investment climates changed dramatically from our initial capitalization through the end of the year

When we began operations in February 1997 with the completion of a successful offering raising $36 million in a private placement, interest rates were universally recognized to be rising, and investment margins were viewed as relatively weak. By the time of our October 1997 initial public offering of 8.946 million shares, including the underwriter's overallotment, which raised approximately an additional $14.2 million, the interest rate environment was shifting, Interest rates at year end 1997 were at their lowest level in two years and concerns about global deflationary events found their way in the domestic markets. Despite these uncertain market conditions, we were gratified that the private placement and the initial public offering combined created a $132 million capital base.

Acting on the changes taking place over the course of 1997, we incorporated our observations about overseas markets and general credit spreads into our investment decisions and realized positive results. In the fourth quarter of 1997, the net interest margin on an annualized basis increased to 1.220/. from 1.16% in the third quarter while our focused asset management kept the constant prepayment rate (CPR) for the fourth quarter at a relatively low 180/.. This represented a very slight increase from the previous quarter amid an environment of falling yields and increased homeowner refinancing. Earnings for the shortened year period from February 18, 1997 to December 31, 1997 were $4,9 million, or $0.83 per average share outstanding, on interest income of $24.7 million. We accomplished all of this in a year that saw us grow from a relatively small, privately held company to a New York Stock Exchange-listed company with $1.2 billion in gross assets at December 31, 1997.

From its inception, Annaly has viewed our primary mission as identifying the prospects for investing in high credit quality, mortgage backed securities and implementing the most prudent cost controls and investment parameters to produce exceptional income returns relative to the current investment alternatives. To the credit,of our asset management strategy, investors who participated in our initial private placement earned an 180/0 total rate of return through the December 31, 1997 end of this shortened operating year, including $0.73 in dividends per average share generated in a year when the Company was rarely at its optimal level of investment leverage. Investors who participated in the initial public offering in October earned $0.22 in dividends as we began to deploy the capital late in the year.

We hold paramount the liquidity of the assets in Annaly's portfolio, and the portfolio at year end consisted of 100% Federal National Mortgage Association (FNMA), Government National Mortgage Association (GNMA) and Federal Home Loan Mortgage Corporation (FHLMC) securities, backed by either the full faith and credit or implied credit of the United States Government. We evaluate assets daily—continually reviewing Annaly's asseUliability strategy vis-a-vis the market's fluctuating risk factors—implementing hedging efforts where appropriate and adjusting the asset mix according to our interpretation of market conditions. The challenges we have anticipated in the market since the beginning of 1997 have ultimately evidenced themselves, and we believe that the earnings Annaly has achieved and the liquidity the portfolio has maintained are a clear reflection of the strength of our capital policy.

Our emphasis has been, and will remain, on long term earnings growth and stability. We believe that current market dynamics will continue beyond the short term. In implementing our core investment strategies, we feel justified in our outlook for our earnings potential in 1998. Our early track record, in managing Annaly and its predecessor funds adeptly though the most dramatic of interest rate swings, bears this out, We have faith in our capital investment policy, and we are grateful for our shareholder's faith in it as well.

Our faith is well placed. I feel personally fortunate to have the opportunity to work with an exceptional team of professionals who are 100% dedicated to the best interests of the shareholders. Their efforts, sacrifices and long hours are the unpaid dividends that reside within our Company. I am thankful too for the opportunity to work with our Board of Directors, whose expertise, guidance and deep wealth of personal experiences have been an invaluable resource to the firm.

Finally, our whole team of employees, officers and directors of Annaly are sincerely grateful to our shareholders, who took the time to hear our plan and have demonstrated their belief in our abilities. It is our goal to be the top-performing company in our business without sacrificing or compromising any of the principles which are embedded in our culture, We look forward to continuing the pursuit of this vision in 1998.

Michael A.J. Farrell
Chairman and Chief Executive Officer
March 17th, 1998

C O M P A N Y P R O F I L E

A N N A L Y M O R T G A G E M A N A G E M E N T , I N C

Annaly Mortgage Management, Inc., a Maryland corporation owns and manages a portfolio of Mortgage-Backed Securities. The Company's principal business objective is to generate net income for distribution to stockholders from the spread between the interest income on its Mortgage-Backed Securities and the costs of borrowing to finance its acquisition of Mortgage-Backed Securities. The Company has elected to be taxed as a Real Estate Investment Trust, (""REIT"), under the Internal Revenue Code of 1986.

F I N A N C I A L H I G H L I G H T S

Period *from February 78,* 1997 *to December31,* 1997
(do//ars in ffrousands, except *for per* share *dafa)*

Statement of Operations Data:	
Days in period	317
Interest income	$ 24,713
Interest expense	19,677
Net interest income	5,036
Gain on sale of mortgage-backed securities	735
General and administrative expenses (G&A expense)	852
Net income	**$** 4.919
Basic net income per average share	$0.83
Diluted net income per average share	$0.78
Dividends declared per average share	$0.79
Balance Sheet Data at December 31, 1997:	
Mortgage-Backed Securities, net	$ 1,161,779
Total assets	1,167,740
Repurchase agreements	918,869
Total liabilities	1,032,654
Stockholders' equity	135,086
Number of common shares outstanding	12,713,900
Other Data:	
Average total assets	$ 476,855
Average borrowings	404,140
Average equity	61,096
Yield on interest earning assets for the period ended December 31, 1997	6.34°k
Cost of funds on interest bearing liabilities for the period ended December 31, 1997	5.61°10
Annualized Financial Ratios (l):	
Net interest margin (net interest income/average total assets)	1 .220/0
G&A expense as a percentage of average assets	0.21%
G&A expense as a percentage of average equity	1.610/0
Return on average assets	1.19~o
Return on average equity	9.27~o

(11 *Each ratio has been computed by annualizing the resu/fs for the 3 i 7-day* period *ended December 31, 1997.*

Overview

The Company is a real estate investment trust ("REIT") which acquires and manages Mortgage-Backed Securities which can be readily financed. The Company commenced operations on February 18, 1997 upon the closing of a private placement which resulted in proceeds to the Company of approximately $33 million. The Company received additional proceeds of $878,000 upon the closing of an offering to certain officers and directors of the Company on July 31, 1997. The Company's initial public offering was completed on October 14, 1997 raising approximate net proceeds of $99.0 million.

The Company's principal business objective is to generate net income for distribution to stockholders from the spread between the interest income on its Mortgage-Backed Securities and the costs of borrowing to finance its acquisition of Mortgage-Backed Securities. Since the commencement of operations on February 18, 1997, the Company has been in the process of building its balance sheet by acquiring Mortgage-Backed Securities. Therefore, the operating results of the Company reflected in the financial statements included in this annual report should be interpreted in light of this growth process and are not necessarily representative of what they may be in the future.

The Company will seek to generate growth in earnings and dividends per share in a variety of ways, including through (i) issuing new Common Stock and increasing the size of the balance sheet when opportunities in the market for Mortgage-Backed Securities are likely to allow growth in earnings per share, (ii) seeking to improve productivity by increasing the size of the balance sheet at a rate faster than the rate of increase in operating expenses, (iii) continually reviewing the mix of Mortgage-Backed Security types on the balance sheet in an effort to improve risk-adjusted returns, and (iv) attempting to improve the efficiency of the Company's balance sheet structure through the issuance of uncollateralized subordinated debt, preferred stock and other forms of capital, to the extent management deems such issuances appropriate.

Results Of Operations: *February 18, 1997 to December 31, 1997*

The Company's 1997 fiscal year commenced with the start of operations on February 18, 1997 and concluded on December 31, 1997. The 317-day period from February 18, 1997 to December 31, 1997 is referred to herein as "the period ended December 31, 1997."

Net Income Summary

For the period ended December 31, 1997, net income, as calculated according to Generally Accepted Accounting Principles ("GAAP), was $4,919,494, or $0.83 per share. Taxable income was $4,884,308, or $0.82 per share. Net income per share is computed by dividing net income by the weighted average number of shares of outstanding Common Stock during the period, which was 5,952,123. Dividends per weighted average number of shares outstanding was $0.79 per share, $4,689,662 in total. Return on average equity was 9.270/. on an annualized basis.

Management's policy is to focus on income and expense measures as a percentage of equity rather than as a percentage of assets. Therefore, improvements in asset-based measures such as net interest margin or operating expenses as a percentage of assets do not necessarily translate into improved stockholder returns. Improvements in net interest income or operating expenses as a percentage of equity, however, indicate that the Company is effectively utilizing its equity capital base. The Company seeks to increase net income as a percentage of equity consistent with its Capital Investment Policy.

Net Income Summary

(dollars In thousands, except per share amounts)	Period Ended December 31, 1997
Interest Income	$ 24,713
Interest Expense	19,677
Net Interest Income	5,036
Gain on Sale of Mortgage-Backed Securities	735
General and Administrative Expenses	852
Net Income	4.919
Average Number of Outstanding Shares	5,952,123
Basic Net Income Per Share	$ 0,83
Average Total Assets	476,855
Average Equity	61,096
Annualized Return on Average Assets	1.19%
Annualized Return on Average Equity	9.27%

Taxable Income and GAAP Income

For the period ended December 31, 1997, income as calculated for tax purposes (taxable income) differed from taxable income as calculated according to generally accepted accounting principles (GAAP income). The differences were in the calculation of premium amortization, gain on sale of securities, and general and administrative expenses.

The distinction between taxable income and GAAP income is important to the Company's stockholders because dividends are declared on the basis of taxable income. While the Company does not pay taxes so long as it satisfies the requirements for exemption from taxation pursuant to the REIT Provisions of the Internal Revenue Code, each year the Company completes a corporate tax form wherein taxable income is calculated as if the Company were to be taxed. This taxable income level determines the amount of dividends the Company can pay out over time. The table below presents the major differences between GAAP and taxable income for the Company

Taxable Income

(dollars /n thousands)	GAAP Net Income	Taxable General & Administrative Differences	Taxable Moflgage Amortization Differences	Taxable Gain on Sale of Securities Differences	Taxable Net Income
For the Period Ended December 31, 1997	$4,919	$3	($92)	$54	$4,884

Interest Income and Average ***Earning*** **Asset** ***Yiald***

The Company had average earning assets of $448.3 million for the period ended December 31, 1997. The Company's primary source of income for the period ended December 31, 1997 was interest income. A portion of income was generated by gains on sales of Mortgage-Backed Securities. Interest income was $24.7 million for the period ended December 31, 1997. The yield on average earning assets was 6.340/. for the same period. The table below shows the Company's average balance of cash equivalents and Mortgage-Backed Securities, the yields earned on each type of earning assets, the yield on average earning assets and interest income.

Average Earning Asset Yield

(dollars In thousands)	Average Cash Equivalents	Average Amoriized Cost of Mortgage-Backed Securities	Average Earning Assets	Yield on Average Cash Equivalents	Yield on Average Amortized Cost of Morfgage-Backed Securities	Yield on Average Earning Assets	Interest Income
For the Period Ended December 31, 1997	$30	$448,276	$448,306	4.20%	6.3470	6.34%	$24,713

The Constant Prepayment Rate (or "CPR") on the Company's portfolio of Mortgage-Backed Securities for the period ended December 31, 1997 was 170/.. "CPR" means an assumed rate of prepayment for the Company's Mortgage-Backed Securities, expressed as an annual rate of prepayment relative to the outstanding principal balance of the Company's Moflgage-Backed Securities. This CPR does not purpoti to be either a historical description of the prepayment experience of the Company's Mortgage-Backed Securities or a prediction of the anticipated rate of prepayment of the Company's Mortgage-Backed Securities. Since a large portion of the Company's assets was purchased at a premium to par value and only a small portion of the Company's assets was purchased at a discount to par value, the premium balance in the Company's portfolio is substantially higher than the discount balance. Principal prepayments had a negative effect on the Company's earning asset yield for the period ended December 31, 1997 because the Company adjusts its rates of premium amortization and discount accretion monthly based on actual payments received.

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Interest Expense and the Cost of Funds

The Company anticipates that its largest expense will usually be the cost of borrowed funds. The Company had average borrowed funds of $404.1 million and total interest expense of $19.7 million for the period ended December 31, 1997. The average cost of funds was 5.61 O/. for the same period. Interest expense is calculated in the same manner for GAAP and tax purposes.

With the Company's current asset/liability management strategy, changes in the Company's cost of funds are expected to be closely correlated with changes in short-term LIBOR, although the Company may choose to extend the maturity of its liabilities at any time. The Company's average cost of funds was 0.06% below one-month LIBOR for the period ended December 31, 1997. The Company generally has structured its borrowings to adjust with one-month LIBOR because the Company believes that one-month LIBOR may continue to be lower than six-month LIBOR in the present interest rate environment, During the period ended December 31, 1997, average one-month LIBOR, which was 5.670/~, was 0.200/0 lower than average six-month LIBOR, which was 5.877..

The table below shows the Company's average borrowed funds and average cost of funds as compared to average one- and average six-month LIBOR.

Averaqe Cost of Funds

(do//ars in thousands)	Average Borrowed Funds	Interest Expense	Average cost of Funds	Average One-Month LIBOR	Average Six-Month LIBOR	Average One-Month LIBOR Relative to Average Six-Month LIBOR	Average cost of Funds Relative to Average One-Month LIBOR	Average cost of Funds Relative to Average Six-Month LIBOR
For the Period Ended December 31, 1997	$404,140	$19,677	5.61?6	5.677.	5.87%	(0.20%)	(0,06°~0)	(0.26?6)

Net Interest Rate Agreement Expense

For the period ended December 31, 1997, the Company did not enter into any interest rate agreements. As part of its asset/liability management process, the Company may enter into interest rate agreements such as interest rate caps, floors and swaps. These agreements would be entered into to reduce interest rate risk and would be designed to provide income and capital appreciation to the Company in the event of certain changes in interest rates. The Company reviews the need for interest rate agreements on a regular basis consistent with its Capital Investment Policy.

Net *Interest* Income

Net interest income, which equals interest income less interest expense, totaled $5.0 million for the period ended December 31, 1997. Net interest spread, which equals the yield on the Company's average assets for the period less the average cost of funds for the period, was r).i'3°/0 for the period ended December 31, 1997. Net interest margin, which equals net interest income divided by average total assets, was 1.227. on an annualized basis. Taxable net interest income was $92,406 less than GAAP net interest income because of differing premium amortization. The principal reason that annualized net interest margin exceeded net interest spread is that average assets exceeded average liabilities. A podion of the Company's assets are funded with equity rather than borrowings. The Company did not have any interest rate agreement expenses for the period ended December 31, 1997.

The table below shows interest income by earning asset type, average earning assets by type, total interest income, interest expense, average repurchase agreements, average cost of funds, and net interest income for the period ended December 31, 1997.

GAAP Net Interest Income

(dol/ars in thousands)	Average Amortized cost of Mortgage-Backed Securities Held	Interest Income on Mongage-Backed Securities	Average Cash Equivalents	Interest Income on Cash Equivalents	Total Interest Income	Yield on Average Interest Earning Assets	Average Balance of Repurchase Agreements	Interest Expense	Average cost of Funds	Net Interest Income
For the Period Ended December 31, 1997	$448,276	$24,682	$30	$31	$24,713	6.34?L	$404,140	$19,677	5.61°~0	$5,036

Gains and Leases on Sales of Mortgage-Backed Securities

For the period ended December 31, 1997, the Company sold Mortgage-Backed Securities with an aggregate historical amortized cost of $173.9 million for an aggregate gain of $735,303. The difference between the sale price and the historical amortized cost of the Moflgage-Backed Securities is a realized gain and increased income accordingly. Taxable gain on sale of Mortgage-Backed Securities was $54,502 greater than GAAP gain on sale of Mortgage-Backed Securities. The Company does not expect to sell assets on a frequent basis, but may from time to time sell existing assets to move into new assets which management believes might have higher risk-adjusted returns or to manage its balance sheet as part of management's asset/liability management strategy.

Credit Expenses

The Company has not experienced credit losses on its portfolio of Mortgage-Backed Securities to date, but losses may be experienced in the future. At December 31, 1997, the Company had limited its exposure to credit losses on its potiolio of Mortgage-Backed Securities by purchasing only Agency Certificates which, although not rated, carry an implied "AAA rating,

General and Administrative Expensea

General and administrative expenses ("operating expense" or "G&A expense") was $851,990 for the period ended December 31, 1997. Taxable G&A expenses were $2,718 less than for GAAP purposes.

GAAP G&A Expense and Operating Expense Ratios

(dollars In thousands)	Cash Comp and Benefits Expense	Other G&A Expense	Total G&A Expense	Total G&A Expense/Average Assets (annualized)	Total G&A Expense/Average Equity (annualized)
For the Period Ended December 31, 1997	$492	$360	$852	0,21%	1.61?0

The Company's G&A expense increased as a result of the consummation of the Company's initial public offering. In addition, certain compensation expenses will increase commensurate with growth in the Company's equity base. Despite these increases in operating expenses, management believes that the Company's operating expenses over time are likely to grow at a slower rate than its asset or equity base and thus management believes that the Company's operating expense ratios are likely to continue to improve over time.

Net Income ***and Return on Average Equity***

Net income was ***$4.9*** million in the period ended December 31, 1997. Return on average equity was 9.270/. on an annualized basis. The table below shows, on an annualized basis, the Company's net interest income, gain on sale of Mortgage-Backed Securities and G&A expense each as a percentage of average equity, and the return on average equity.

Components of Return on Average Equity

	Net Interest Income/Average Equity	Gain on Sale of Morlgage-Backed Securities/ Average Equity	G&A Expense/Average Equity	Return on Average Equity
For the Period Ended December 31, 1997 (on an annualized basis)	9.49:L	1 .39?/0	1.61%	9.270/.

Dividends and Taxable income

The Company will elect to be taxed as a REIT under the Internal Revenue Code. Accordingly, the Company intends to distribute substantially all of its taxable income for each year to stockholders, including income resulting from gains on sales of Modgage-Backed Securities. On a cumulative basis through December 31, 1997, earned taxable income exceeded dividend declarations by $194,646, or $0.015 per share, based on the number of shares of Common Stock outstanding at period end.

Dividend Summary

(dollars in thousands, except per share data)	Taxable Net Income	Weighted Average Common Shares Outstanding	Taxable Net Income Per Share	Dividends Declared Per Share	Total Dividends	Dividend Pay-out Ratio	Cumulative Undistributed Taxable Income
For the Period Ended December 31, 1997	$4,884	5,952,123	$0.82	$0.79	$4,690	96.0%	$194

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Financial Condition

Mortgage-Backed Securities

All of the **Company's Mortgage-Backed Securities at December 31, 1997 were adjustable-rate or fixed-rate Mortgage-Backed Securities backed by Single-Family**Motigage **Loans.** All of the mortgage assets underlying such Mortgage-Backed Securities were secured with a first lien position with respect to the underlying single-family properties. At December 31, 1997, all the Company's Mortgage-Backed Securities were Agency Certificates which carry an implied "AAA" rating. All of the Company's earning assets are marked-to-market at liquidation value.

Discount balances are accreted as an increase in interest income over the life of discount Mortgage-Backed Securities and premium balances are amortized as **a** decrease in interest income over the life of premium Mortgage-Backed Securities. At December 31, 1997, the Company had on its balance sheet a total of $114,186 of unamortized discount (which is the difference between the remaining principal value and current historical amortized cost of Mortgage-Backed Securities acquired at a price below principal value) and a total of $21.5 million of unamortized premium (which is the difference between the remaining principal value and the current historical amortized cost of Mortgage-Backed Securities acquired at a price above principal value).

Mortgage principal repayments received were $79.8 million for the period ended December 31, 1997. Given the Company's current portfolio composition, if mortgage principal prepayment rates increase over the life of the Mortgage-Backed Securities comprising the current portfolio, all other factors being equal, the Company's net interest income should decrease during the life of such Mortgage-Backed Securities as the Company will be required to amortize its net premium balance into income over a shorter time period. Similarly, if mortgage principal prepayment rates decrease over the life of such Mortgage-Backed Securities, all other factors being equal, the Company's net interest income should increase during the life of such Mortgage-Backed Securities as the Company will amortize its net premium balance over a longer time period.

The table below summarizes the Company's Mortgage-Backed Securities at December 31, 1997.

Mortgage-Backed Securities

(dollars in thousands)	Principal Value	Net Premium	Amortized cost	Amortized Costi Principal Value	Estimated Fair Value	Estimated Fair Value/ Principal Value	Weighted Average Yield
At December 31, 1997	$1,138,365	$21,390	$1,159,755	101.88%	$1,161,779	102,06%	6.5770

During the period ended December 31, 1997, the Company's Motigage-Backed Securities consisted solely of Agency Certificates. However, the Company may purchase other types of Mortgage-Backed Securities in the future.

The tables below set forth certain characteristics of the Company's Mortgage-Backed Securities at December 31, 1997. The index level for adjustable-rate Mortgage-Backed Securities is the weighted average rate of the various short-term interest rate indices which determine the coupon rate.

Adjustable-Rate Mortgage-Backed Security Characteristics

(dollars in thousands)	Principal Value	Weighted Average Coupon Rate	Weighted Average Index Level	Weighted Average Net Margin	Weighted Average Term to Next Adjustment	Weighted Average Lifetime Cap	Weighted Average Asset Yield	Ptincipal Value at Period End as 7. of Moflgage-Backed Securities
At December 31, 1997	$994,653	7.13%	5.52~o	1.61%	22 months	10.78%	6.500/0	87.3870

Fixed-Rate Mortgage-Backed Security Characteristics

/do//are in thousands)	Ptincipal Value	Weighted Average Coupon Rate	Weighted Average Asset 'field	Principal Value as:& of Morigage-Backed Securities
At December 31, 1997	$143,712	7.50?&	7.08%	12,620/.

At December 31, 1997, the Company held Moflgage-Backed Securities with coupons linked to the one- and three-year Treasury Indices, one-month LIBOR and the six-month CD rate. The table below segments the Company's adjustable-rate Mortgage-Backed Securities by type of adjustment index, coupon adjustment frequency and annual and lifetime cap adjustment.

Adjustable-Rate Mortgage-Backed Securities by Index

	One-Month LIBOR	Six-Month CD Rate	1-Year Treasury Index	Index 3-Year Treasury
Weighted Average Adjustment Frequency	1 mo.	6 mo.	50 mo.	36 mo.
Weighted Average Term to Next Adjustment	1 mo.	4 mo,	46 mo.	12 mo.
Weighted Average Annual Period Cap	none	2.00%	1.780/.	2.0070
Weighted Average Lifetime Cap	9.21%	1 0.88%	11 .77?/0	14.1 6%
Mortgage Principal Value as Percentage of Mortgage-Backed Securities	30,940/0	7.81 O/.	48.45%	. 18%

The table below shows unrealized gains and losses on the Mortgage-Backed Securities in the Company's pohfolio.

Unrealized Gains and Losses

(do//ars in *thousands)*	At December 31, 1997
Unrealized Gain	$3,253
Unrealized Loss	(1 ,229)
Net Unrealized Gain	2,024
Net Unrealized Gain as % of Mortgage-Backed Securities Principal Value	0,18%
Net Unrealized Gain as ?4 of Mortgage-Backed Securities Amortized Cost	0.17%

Interest Rate Agreements

Interest rate agreements are assets that are carried on a balance sheet at estimated liquidation value. At December 31, 1997, there were no interest rate agreements on the Company's balance sheet.

Borrowings

To date, the Company's debt has consisted entirely of borrowings collateralized by a pledge of the Company's Mortgage-Backed Securities. These borrowings appear on the balance sheet as repurchase agreements. At December 31, 1997, the Company had established uncommitted borrowing facilities in this market with nineteen lenders in amounts which the Company believes are in excess of its needs. All of the Company's Mortgage-Backed Securities are currently accepted as collateral for such borrowings. The Company, however, limits its borrowings, and thus its potential asset growth, in order to maintain unused borrowing capacity and thus increase the liquidity and strength of its balance sheet.

For the period ended December 31, 1997, the term to maturity of the Company's borrowings has ranged from one day to six months, with a weighted average original term to maturity of 50 days and a weighted average remaining maturity of 16 days at December 31, 1997. Many of the Company's borrowings have a cost of funds which adjust monthly based on a fixed spread over or under one-month LIBOR or based on the daily Fed Funds rate. As a result, the average term to the next rate adjustment for the Company's borrowings is typically shorter than the term to maturity for the Company's Mortgage-Backed Securities. At December 31, 1997, the weighted average cost of funds for all of the Company's borrowings was 6.1 6~0 and the weighted average term to next rate adjustment was 16 days.

Liquidity

Liquidity, which is the Company's ability to turn non-cash assets into cash, allows the Company to purchase additional Mortgage-Backed Securities and to pledge additional assets to secure existing borrowings should the value of pledged assets decline. Potential immediate sources of liquidity for the Company include cash balances and unused borrowing capacity, Unused borrowing capacity will vary over time as the market value of the Company's Mortgage-Backed **Securities varies. The Company's balance sheet also generates liquidity on an on-going basis through mortgage principal** repayments and net earnings held prior to payment as dividends. Should the Company's needs ever exceed these on-going sources of liquidity plus the immediate sources of liquidity discussed above, management believes that the Company's Mortgage-Backed Securities could in most circumstances be sold to raise cash. The maintenance of liquidity is one of the goals of the Company's Capital Investment Policy. Under this policy, asset growth is limited in order to presewe unused borrowing capacity for liquidity management purposes.

Stockholders' Equity

The Company uses "available-for-sale" treatment for its Mortgage-Backed Securities; these assets are carried on the balance sheet at estimated market value rather than historical amortized cost. Based upon such "available-for-sale" treatment, the Company's equity base at December 31, 1997 was $135.1 million, or $10.62 per share. If the Company had used historical amortized cost accounting, the Company's equity base at December 31, 1997 would have been $133.1 million, or $10.47 per share.

With the Company's "available-for-sale" accounting treatment, unrealized fluctuations in market values of assets do not impact GAAP or taxable income but rather are reflected on the balance sheet by changing the carrying value of the asset and reflecting the change in stockholders' equity under "Net Unrealized Gain on Assets Available-for-Sale." By accounting for its assets in this manner, the Company hopes to provide useful information to stockholders and creditors and to preserve flexibility to sell assets in the future without having to change accounting methods.

As a result of this mark-to-market accounting treatment, the book value and book value per share of the Company are likely to fluctuate far more than if the Company used historical amortized cost accounting, As a result, comparisons with companies that use historical cost accounting for some or all of their balance sheet may be misleading,

Unrealized changes in the estimated net market value of Motigage-Backed Securities have one direct effect on the Company's potential earnings and dividends: positive market-to-market changes will increase the Company's equity base and allow the Company to increase its borrowing capacity while negative changes will tend to limit borrowing capacity under the Company's Capital Investment Policy. A very large negative change in the net market value of the Company's Mortgage-Backed Securities might impair the Company's liquidity position, requiring the Company to sell assets with the likely result of realized losses upon sale. "Net Unrealized Gain on Assets Available-for-Sale" was $2.0 million, or 0,020/0 of the amortized cost of Mortgage-Backed Securities at December 31, 1997.

The table below shows the Company's equity capital base as reported and on a historical amortized cost basis at December 31, 1997, The historical cost equity capital base is influenced by issuances of Common Stock, the level of GAAP earnings as compared to dividends declared, and other factors. The GAAP reported equity capital base is influenced by these factors plus changes in the "Net Unrealized Gain on Assets Available-for-Sale" account.

Stockholders' Equity

(do//ars in thousands, except *per share dafa)*	Historical Amortized Cost Equity Base	Net Unrealized Gain on Assets Available-for-Sale	GAAP Reported Equity Base (Book Value)	Histoflcal Amoflized Cost Equity Per Share	GAAP Reporfed Equity (Book Value:) Per Share
At December 31, 1997	$133,063	$2,024	$135,087	$10.47	$10.62

Leverage

The Company's debt-to-GAAP reported equity ratio at December 31, 1997 was 7:1. The Company generally expects to maintain a ratio of debt-to-equity of between 8:1 and 12:1, although the ratio may vary from time to time based upon various factors, including management's opinion of the level of risk of its assets and liabilities, the Company's liquidity position, the level of unused borrowing capacity and over-collateralization levels required by lenders when the Company pledges assets to secure borrowings.

The target debt-to-GAAP reporled equity ratio is determined under the Company's Capital Investment Policy. Should the actual debt-to-equity ratio of the Company increase above the target level due to asset acquisition andlor market value fluctuations in assets, management will cease to acquire new assets. Management will, at such time, present a plan to its Board of Directors to bring the Company back to its target debt-to-equity ratio; in many circumstances, this would be accomplished in time by the monthly reduction of the balance of Mortgage-Backed Securities through principal repayments.

Asset/Liability Management and Effect of Changes in Interest Rates

Management continually reviews the Company's asset/liability management strategy with respect to interest rate risk, mortgage prepayment risk, credit risk and the related issues of capital adequacy and liquidity. The Company **seeks attractive risk-adjusted stockholder returns while maintaining a strong balance sheet.**

The Company seeks to manage the extent to which net income changes as a function of changes in interest rates by matching adjustable-rate assets with variable-rate borrowings. In addition, although it has not done so to date, the Company may seek to mitigate the potential impact on net income of periodic and lifetime coupon adjustment restrictions in its portfolio of Mortgage-Backed Securities by entering into interest rate agreements such as interest rate caps and interest rate swaps. While the Company has determined, based upon the current interest rate environment and other relevant factors, that it would not be economically advantageous, at present, for the Company to enter into interest rate agreements, the Company may enter into such agreements in the future.

Changes in interest rates may also have an effect on the rate of mortgage principal prepayments and, as a result, prepayments on Mortgage-Backed Securities. The Company will seek to mitigate the effect of changes in the mortgage principal repayment rate from an economic point of view by balancing assets purchased at a premium with assets purchased at a discount. To date, the aggregate premium exceeds the aggregate discount on Mortgage-Backed Securities in the Company's portfolio. As a result, prepayments, which result in the expensing of unamoflized premium, will reduce the Company's net income compared to what net income would be absent such prepayments.

Inflation

Virtually all of the Company's assets and liabilities are financial in nature. As a result, interest rates and other factors drive the Company's performance far more than does inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates, The Company's financial statements are prepared in accordance with GAAP and the Company's dividends are determined by the Company's net income as calculated for tax purposes; in each case, the Company's activities and balance sheet are measured with reference to historical cost or fair market value without considering inflation.

Other Matters

The Company calculated its qualified REIT assets, as defined in the Internal Revenue Code, to be 99.50/. of is total assets, as compared to the Code requirement that at least 750/. of its total assets must be qualified REIT assets. The Company also calculates that 97. 10/. of its revenue qualifies for the 75% source of income test and 10O"A of its revenue qualifies for the 95?6 source of income test under the REIT rules. Furthermore, the Company's revenues during the year ended December 31, 1997 subject to the 307. income limitation under the REIT rules amount to 2.90/. of total revenue, The Company also met all REIT requirements regarding the ownership of its Common Stock and the distributions of its net income. Therefore, as of December 31, 1997, the Company believes that it qualified as a REIT under the provisions of the Code.

The Company at all times intends to conduct its business so as not to become regulated as an investment company under the Investment Company Act of 1940. If the Company were to become regulated as an investment company, then the Company's use of leverage would be substantially reduced. The Investment Company Act exempts entities that are "primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate" ("Qualifying Interests"). Under current interpretation of the staff of the SEC, in order to qualify for this exemption, the Company must maintain at least 55~o of its assets directly in Qualifying Interests, In addition, unless certain mortgage securities represent all the certificates issued with respect to an underlying pool of mortgages, such mortgage securities may be treated as securities separate from the underlying mortgage loans and, thus, may not be considered Qualifying Interests for purposes of the 55?& requirement. As of December 31, 1997, the Company calculates that it is in compliance with this requirement.

Safe Harbor Statement

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: Statements in this discussion regarding Annaly Mortgage Management, Inc. (the "Company") and its business which are not historical facts are "forward-looking statements" that involve risks and uncertainties. For a discussion of such risks and uncertainties, which could cause actual results to differ from those contained in the forward-looking statements, see "Risk Factors" in the Company's Form 10-K.

BALANCE SHEET

AN NALY MO RTBA13E MANAGEMENT, INC.

December 31. 1997	
Assets	
Cash and cash equivalents	$ 511,172
Mortgage-Backed Securities—At fair value, net of unamortized premiumtdiscount	1,161,779,192
Accrued interest receivable	5,338,861
Other assets	111,257
Tots/ assets	$1,167,740,482
Liabilities and Stockholders' Equity	
Liabilities:	
Repurchase agreements	$ 918,869,000
Payable for Mortgage-Backed Securities purchased	105,793,723
Accrued interest payable	4,992,447
Dividends payable	2,797,058
Accounts payable	201,976
Total liabilities	1,032,654,204
Stockholders' Equity:	
Common stock par value $.01 per share; 100,000,000 authorized, 12,713,900 shares issued and outstanding	127,139
Additional paid-in capital	132,705,765
Net unrealized gains on Mortgage-Backed Securities	2,023,751
Retained earnings	229,623
Total stockholders' equity	135,086,278
Total Liabilities and Stockholders' Equity	$1,167,740,482

See notes fo financial statements.

STATEMENT OF OPERATIONS

For the period February 18, 1997 (commencement of operations) through December 31, 1997	
Interest Income:	
Mortgage-Based Securities	$24,682,353
Money market account	30,782
Total interest income	24,713,135
Interest Expense:	
Repurchase agreements	***19,676,954***
Net interest income	***5,036,181***
Gain on sale of Mortgage-Backed Securities	**735,303**
General and administrative expenses	851,990
Net income	**$4,919,494**
Net income per share:	
Basic	$0.83
Dilutive	$0.78
Average number of shares outstanding	5,952,123

See notes to financial stafemenfs.

STATEMENT OF STnCKH0~DER5' EQUITY

AN NALY MO RTGAQE MANAGEMENT, INE.

For the period February 18, 1997 (commencement of operations) through December 31, 1997

	Common Stock Par Value	Additional Paid-in Capital	Net Unrealized Gain	Retained Earnings	Total
Balance February 18, 1997	$ 800	$ 11,200	$ –	$ (209)	$ 11,791
Issuance of common stock	126,339	132,694,565	—	—	132,820,904
Available-for-sale securities—					
Fair value adjustment	—	—	2,023,751	—	2,023,751
Net income	—	—	—	4,919,494	4,919,494
Dividends declared—					
$0.79 per average share	—	—	—	(4,689,662)	(4,689,662)
Balance, December 31, 1997	*$127,139*	*$132,705,765*	*$2,023,751*	*$ 229,623*	$135,086,278

See notes to financia/ statements

STATEMENT OF CASH FLOWS

For the period February 18, 1997 (commencement of operations) through December31, 1997

Cash flows form operating activities:	
Net income	$ 4,919,494
Adjustments to reconcile net income to net cash provided by operating activities:	
Amortization of mortgage premiums and discounts, net	2,620,729
Gain on sale of Mortgage~Backed Securities	(735,303)
Increase in accrued interest receivable	(5,338,861)
Increase in other assets	(111 ,257)
Increase in accrued interest payable	4,992,447
Increase in accounts payable	201,976
Net cash provided by operating activities	6,549,225
Cash flows from investing activities:	
Purchase of Mortgage-Backed Securities	(1,310,362,097)
Proceeds from sale of Mortgage-Backed Securities	174,682,533
Principal payments on Mortgage-Backed Securities	79,832,420
Net cash used in investing activities	(1,055,847,144)
Cash flows form financing activities:	
Proceeds from repurchase agreements	3,498,546,390
Principal payments on repurchase agreements	(2,579,677,390)
Net proceeds from private placement equity offering	32,979,904
Net proceeds from direct offering	878,000
Net proceeds from public offering	*98,962,999*
Dividends paid	(1 *,892,604)*
Net cash provided by financing activities	1,049,797,299
Net increase in cash and cash equivalents	499,380
Cash and cash equivalents, beginning of period	11,792
Cash and cash equivalents, end of period	511,172
Supplemental disclosure of cash flow information:	
Interest paid	**$** 14,684,507
Noncash financing activities:	
Net unrealized gains on available-for-sale securities	**$** 2,023.751
Dividends declared, not yet paid	$ *2,797,058*

See nofes to financia/ statements.

. . . . ——-.— .-. .-

For the period February 18, 1997 (commencement of operations) through December 31, 1997

1 Organization and Significant Accounting Policies

Annaly Mortgage Management, Inc. (the "Company") was incorporated in Maryland on November 25, 1996. The Company commenced its operations of purchasing and managing an investment portfolio of primarily adjustable-rate Mortgage-Backed Securities on February 18, 1997, upon receipt of the net proceeds from the private placement of equity capital. On July 31, 1997, the Company received additional proceeds from a direct offering to officers and directors. An initial public offering was completed on October 14, 1997 (see Note 5). .

A summary of the Company's significant accounting policies follows:

cash and Cash Equivalents—Cash and cash equivalents includes cash on hand and money market funds. The carrying amounts of cash equivalents approximates their value.

Mortgage-Backed Securities—The Company invests primarily in mortgage pass-through certificates, collateralized mortgage obligations and other motigage-backed securities representing interests in or obligations backed by pools of mortgage loans (collectively, "Mortgage-Backed Securities").

Statement of Financial Accounting Standards No. 115, Accounting for Ceflain Investments in Debt and Equity Securities ("SFAS 11 5"), requires the Company to classify its investments as either trading investments, available-for-sale investments or held-to-maturity investments. Although the Company generally intends to hold most of its Mortgage-Backed Securities until maturity, it may, from time to time, sell any of its Mortgage-Backed Securities as part of its overall management of its balance sheet. Accordingly, this flexibility requires the Company to classify all of its Mortgage-Backed Securities as available-for-sale. All assets classified as available-for-sale are repofled at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders' equity.

Unrealized losses on Mortgage-Backed Securities that are considered other than temporary, as measured by the amount of decline in fair value attributable to factors other than temporary, are recognized in income and the cost basis of the Mortgage-Backed Securities is adjusted. There were no such adjustments for the period ending December 31, 1997.

Interest income is accrued based on the outstanding principal amount of the Mortgage-Backed Securities and their contractual terms. Premiums and discounts associated with the purchase of the Mortgage-Backed Securities are amortized into interest income over the lives of the securities using the effective yield method.

Mortgage-Backed Securities transactions are recorded on the date the securities are purchased or sold. Purchases of newly issued securities are recorded when all significant uncertainties regarding the characteristics of the securities are removed, generally shortly before settlement date. Realized gains and losses on Mortgage-Backed Securities transactions are determined on the specific identification basis.

Credit Risk—At December 31, 1997, the Company has limited is exposure to credit losses on its portfolio of Mortgage-Backed Securities by only purchasing securities from Federal Home Loan Motigage Corporation ("FHLMC"), Federal National Mortgage Association ("FNMA), or Government National Mortgage Association ("GNMA). The payment of principal and interest on the FHLMC and FNMA Mortgage-Backed Securities are guaranteed by those respective agencies and the payment of principal and interest on the GNMA Mortgage-Backed Securities are backed by the full-faith-and-credit of the U.S. government. At December 31, 1997, all of the Company's Mortgage-Backed Securities have an implied "AAA rating.

Income Taxes—The Company has elected to be taxed as a Real Estate Investment Trust ("REIT") and intends to comply with the provisions of the Internal Revenue Code of 1986, as amended (the "Code") with respect thereto. Accordingly, the Company will not be subjected to Federal income tax to the extent of its distributions to shareholders and as long as certain asset, income and stock ownership tests are met.

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

2 Mortgage-Backed Securities

The following table pertains to the Company's Mortgage-Backed Securities classified as available-for-sale as of December 31, 1997, which are carried at their fair value:

	Federal Home Loan Mortgage Corporation	Federal National Mortgage Association	Government National Mortgage Association	Total Mortgage Assets
Mortgage-Backed Securities, gross	$273,119,008	$691,081,916	S174,164,513	$1,138,365,437
Unamortized discount	(3,619)	(110,567)	—	(114,186)
Unamortized premium	2,848,376	14,532,363	4,123,451	21,504,190
Amortized cost	275,963,765	705,503,712	178,287,964	1,159,755,441
Gross unrealized gains	376,485	1,948,068	928,453	3,253,006
Gross unrealized losses	(115,190)	(802,801)	(311 ,264)	(1 ,229,255)
Estimated fair value	$276,225,060	$706,648,979	$178,905,153	$1,161,779,192

FASB Statement No. 107, Disclosures About Fair Value of Financial Instruments, defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale,

The fair values of the Company's Mortgage-Backed Securities are based on market prices provided by certain dealers who make markets in these financial instruments. The fair values reported reflect estimates and may not necessarily be indicative of the amounts the Company could realize in a current market exchange. Cash and cash equivalents, interest receivable, repurchase agreements and other liabilities are reflected in the financial statements at their amortized cost, which approximates their fair value because of the short-term nature of these instruments.

The adjustable rate Mortgage-Backed Securities are limited by periodic caps (generally interest rate adjustments are limited to no more than 10/. every six months) and lifetime caps. At December 31, 1997, the weighted average lifetime cap was 10.8°/0.

During the period ended December 31, 1997, the Company realized $735,303 in gains from sales of Mortgage-Backed Securities. There were no losses on sales of Mortgage-Backed Securities during the period.

3 Repurchase Agreements

The Company has entered into repurchase agreements to finance most of its Mortgage-Backed Securities. The repurchase agreements are secured by the market value of the Company's Mortgage-Backed Securities and bear interest rates that have historically moved in close relationship to LIBOR.

As of December 31, 1997, the Company had outstanding $918,869,000 of repurchase agreements with a weighted average borrowing rate of 6.16°/!0 and a weighted average remaining maturity of 16 days. At December 31, 1997, Mortgage-Backed Securities actually pledged had an estimated fair value of $936,859,658.

At December 31, 1997, the repurchase agreements had the following remaining maturities:

Within 30 days	$590,960,000
30 to 59 days	51,776,000
60 tO 89 days	.
90 to 119 days	103,391,000
Over 120 days	172,742,000
	$916,669,000

4 Common **Stock**

During the period the Company completed a private placement of equity capital. The Company received net proceeds of $32,979,905 from an issuance of 3,600,000 shares of common stock. The Company received additional proceeds of $878,000 from an issuance of 87,800 shares of common stock upon the closing of a direct offering to certain directors, officers, and employees of the Company on July 31, 1997. The Company issued 9,006,100 shares of common stock on October 14, 1997 during an initial public offering. Approximate net proceeds received in the offering were $98,962,999.

During the Company's period ending December 31, 1997, the Company declared dividends to shareholders totaling $4,689,662, or $.79 per weighted average share, of which $1,892,604 was paid during the period and $2,797,058 was paid on Janualy 20, 1998. For Federal income tax purposes dividends paid for the period is ordinary income to the Company stockholders.

5 Earnings per Share (EPS)

In February 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting No. 128, Earnings Per Share (SFAS No. 128), which requires dual presentation of Basic EPS and Diluted EPS on the face of the income statement for all entities with complex capital structures. SFAS No. 128 also requires a reconciliation of the numerator and denominator of Basic EPS and Diluted EPS computation. The reconciliation is as follows:

	For the Period Ended December 31, 1997		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Net income	$4,919,494		
Basic EPS	4,919,494	5,952,123	S0.83
Effect of dilutive securities:			
Dilutive stock options	—	348,500	
Diluted EPS	$4,919,494	6,300,623	$0.78

Options to purchase 348,500 shares were outstanding during the period (Note 7) and were dilutive as the exercise price (between $4.00 and $10.00) was less than the average stock price for the period for the Company (between $11.00 and $12.00).

6 Long Term Stock Incentive Plan

The Company has adopted a Long Term Stock Incentive Plan for executive officers, key employees and nonemployee directors (the “Incentive Plan”). The Incentive Plan authorizes the Compensation Committee of the Board of Directors to grant awards, including incentive stock options as defined under section 422 of the Code (“ISOS”) and options not so qualified (“NQSOS”). The Incentive Plan authorizes the granting of options or other awards for an aggregate of the greater of 500,000 shares or 50/. of the outstanding shares of the Company’s common stock.

The Company adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, “Accounting for Stock-Based Compensation.” Accordingly, no compensation cost for the Incentive Plan has been determined based on the fair value at the grant date for awards consistent with the provisions of SFAS No. 123. For the Company’s pro forma net earnings, the compensation cost will be amortized over the four-year vesting period of the options. The Company’s net earnings per share would have been reduced to the pro forma amounts indicated below:

	For the Period Ending	
	June 30, 1997	December 31, IW7
Net earnings—as reported	$1,340,059	$4,919,494
Net earnings—pro forma	1,249,778	4,738,932
Earnings per share—as reported	$ 0.36	$ 0,83
Earnings per share—pro forma	$ 0.34	$ 0.80

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in the period ended December 31, 1997: dividend yield of 10YO; expected volatility of 250/.; risk-free interest rate of 6.077.; and expected lives of four years.

Information regarding options is as follows:

	Shares	Weighted Average Exercise Price
Granted (31 1,000 ISOS, 37,500 NQSOS)	348,500	$6,42
Exercised	—	—
Expired	—	—
Outstanding, end of period	348,500	$6.42
Weighted average fair value of options granted during the period (per share)	$ 2.07	

The following table summarizes information about stock options outstanding:

Options Outstanding			
Range of Exercise Prices	OptIons Outstanding	Weighted Average Remaining Contractual Life (Yrs.)	Weighted Average Exercise Price
4.00	208,250	4.0	$4.00
10.00	140,250	3.8	10.00
$4.00—$10.00	348,500	3.9	$6.42

The vesting periods for the options are as follows: 7,500 options vested as of June 26, 1997. The remainder of the options will vest in four equal annual installments beginning in 1998 and ending in 2001.

7 Lease Commitments

The Corporation has a noncancellable lease for office space, which commences in April 1998 and expires in December 2007.

The Corporation's aggregate future minimum lease payments are as follows:

1998	$ 67,787
1999	92,804
2000	95,299
2001	97,868
2002	100,515
2003 and thereafter	582,406
	$1,036,679

8 Summarized Quarterly **Results (Unaudited)**

The following is a presentation of the quarterly results of operations.

	Period Ended	Quarters Ending		
	March 31,1997	June 30, 1997	September 30, 1997	December 31, 1997
Interest income from Moflgage-Backed Securities and cash	$1,060,692	$5,448,215	$6,123,457	$12,080,771
Interest expense on repurchase agreements	713,120	4,435,697	5,126,089	9,402,048
Net interest **income**	347,572	1,012,518	997,368	2,678,723
Gain on sale of Mortgage-Backed Securities	—	229,865	429,400	76,038
General and administrative expenses	64,047	185,849	227,245	374,849
Net income	$ 283,525	$1,056,534	$1,199,523	$2,379,912
Net income per share:				
Basic	$ 0,08	$ 0.28	$ 0,32	$ 0.21
Dilutive	$ 0,07	$ 0.26	$ 0,29	$ 0.20
Average number of shares outstanding	3,680,000	3,680,000	3,739,170	11,449,777

Independent Auditors* Report

To the Stockholders of
Annaly Mortgage Management, Inc.

We have audited the accompanying balance sheet of Annaly Mortgage Management, Inc. (the “Company”) as of December 31, 1997, and the related statements of operations, stockholders’ equity and cash flows for the period February 18, 1997 (commencement of operations) through December 31, 1997. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence suppotiing the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company at December 31, 1997 and the results of its operations and its cash flows for the period February 18, 1997 (commencement of operations) through December 31, 1997 in conformity with generally accepted accounting principles.

Deloitte & Touche LLP

Deloitte & Touche
New York, New York
February 6, 1998

Common STnc K AND Market Data

The Company’s Common Stock began trading October 8, 1997 on the New York Stock Exchange under the trading symbol N LY.

The following tables set forth, for the periods indicated, the high, low and closing sales prices per share of Common Stock as reported on the New York Stock Exchange and the cash dividends declared per share of Common Stock

Stock Prices

	Hiah	Low	Close
For the Quarter ended December 31, 1997	12'%6	10	11

Cash Dividends Declared Per Share

For the Quarter ended March 31, 1997	$0.075
For the Quarter ended June 30, 1997	$0.255
For the Quarter ended September 30, 1997	$0.18
For the Quafler ended December 31, 1997	$0.22

The Company intends to pay quarterly dividends and to make such distributions to its shareholders in amounts such that all or substantially all of its taxable income in each year (subject to certain adjustments) is distributed so as to qualify for the tax benefits accorded to a REIT under the Internal Revenue Code. All distributions will be made by the Company at the discretion of the Board of Directors and will depend on the earnings of the Company, financial condition of the Company, maintenance of REIT status and such other factors as the Board of Directors may deem relevant from time to time.

Corporate Officers

Michael A. J. Farrell
Cha~rman of f,be Board 8
Ch/ef E,~5cut/\~e Oti/cer

Wellington J, St. Claire
nice *Cha~r??rso,? &*
Ch/ef Asset Manager

Timothy J, Guba
Pres)dect &
Ch}ef O,oeratlng Off~cer

Kathryn F. Fagan
Chle) *Fnanc;dl @ff(cer &*
Treasurer

Jennifer A. Stephens
Se87!or L'ce Press'ant &
Coroorafe **Secrerary**

James P. Fortescue
L'/ce *Pres/de,nt*

Kristopher R. Konrad
Ass,stanf b(lce Presldenr

Board of Directors

Michael A. J. Farrell
Chairman of the Board &
Ch,ef E.<ecut/tie Officer

Wellington J. St. Claire
tice *Chairperson &*
Chief Asset Manager

Timothy J. Guba
Pres/denf &
Ch/ef Operating Off/cer

Kevin P. Brady
Founder & Pr/nc/pa/
KPB Associates

Spencer 1. Browne
Former Presia'ent &
Ch/ef Execur/ve Officer
Asset /(Tvest~rs Corporarron

John S. Grace
Cha/nnan Ster//ng **Grace** *Corporation*
Co-Chalrr?ldn .Assoctated Asset
Management Inc

Jonathan D. Green
Pres~dent & *Ch/ef Execurlve Off/cer*
RocKete//er Center Management
Corporation & Rockefe//er Center
Del,eiopment Corporation

John A. Lambiase
Formsr Managing D/rector
Sa/omon Brof:]ers, /nc

Donnell A. Segalas
Senfor *Par[ner*
Beaconsfie/d Caoifa/, L L C

Corporate Headquarters

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Stock Exchange Listing
The common stock is /isted on the
New York Exchange (symbol NLY)

Annual Meeting
The *Annua/ Meef/rrg of Stockholders WIII be*
held Mondag May 18, 1998 **at** *9 a.m. at*
Grand Hyatt NY A/v/n Room

Shareholder Communications
Copies of the CompanyS Annual Report
and Financ/a/s **may** *be obfained by wrl [/rig*
the Corporate Secretary or calllng the
Investor re/ations hot /~ne 888 8ANNA LY

NLY
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NYSE
THE NEW YORK STOCK EXCHANGE

Design Curran & Connors, Inc

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