To Our Fellow Shareholders:

Every morning as I walk to the office I pass the steps leading up to the New York Public Library. Flanking the north and south of the steps are two magnificent statues of lions. They are a constant source of inspiration. I'd like to share some of that with you today. As I write this letter I reflect on the incredibly momentous times we live in and the third anniversary of our company. 1999 has been recorded as the worst year for high quality bonds in the past century. It was preceded by 1998, which was the worst year for the credit markets in the century. 1997, the year we went public, was no picnic either, with the Chairman of the Federal Reserve calling the equity markets "irrationally exuberant".

The Dow Jones Industrial Average was at about 6500 when he made this statement.

Through all of this Annaly has persevered and prospered from an earnings perspective. 1999 will record that Annaly's earnings were 17% higher than 1998's. This performance occurred despite the "worst bond market of the century". We watched with amazement while Companies with no earnings soared in market valuation while our positive earnings surprises gained little or no immediate recognition for NLY's shares. As a result of its continuing strong earnings performance however, on a year over year basis, NLY outperformed the Standard and Poor's Index in 1999. In the time of "dot.com" mania, I think it is fair to characterize the year as success, with a view that as a company that pays out at least 95% of its earnings, Annaly has created solid returns for its shareholders since its inception in 1997.

During my career I have watched the cycles between the growth and earnings sectors grow longer and longer in their duration. Bear markets in either the debt or equity markets are not straight lines as demonstrated in the vivid contrasts of 1999. Throughout it all we have maintained our disciplined approach of keeping to high grade, liquid United States Government or Agency securities. These securities always perform best in volatile times. As tempting as it may be now from a yield perspective, we do not feel that it is still the time to go out and stretch for returns by straying from this discipline. There will be time enough for that when the business cycle turns.

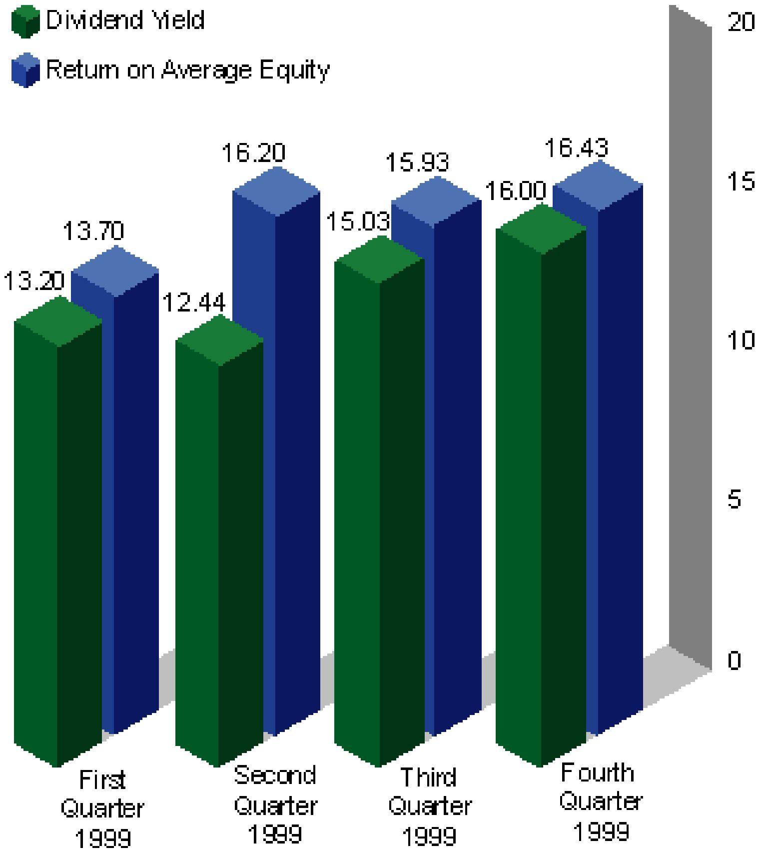
In January of this year, the economy passed its 107th month of expansion. This is the longest period of good times in our nation's history. The result of this growth is now being reflected in the US Treasury's debt management. We enjoy the luxury, as a nation, of reducing our debt for the first time in generations. Given the high quality rating of our assets, this is a very positive development for Annaly. Our assets should perform very well in this environment, even at lower levels of economic growth, should the expansion slow.

In closing, I thought I would share with you one reminder of the timeless qualities that keep us focused on doing the right things for Annaly's shareholders. It's the two lions that guard the entrance to the library mentioned above that I walk past each day; I learned their names this year. Patience and Fortitude.

Michael A.J. Farrell

Chairman of the Board
Chief Executive Officer
March 17th, 2000

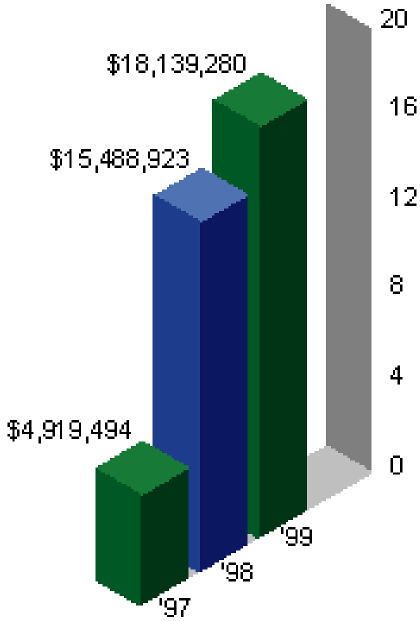
Return on Average Equity and Dividend Yield ($ in millions)



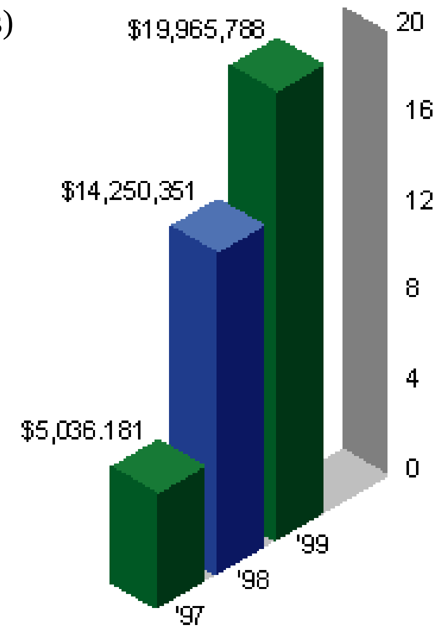
Annaly's Management Team

Back Row Left to Right: Timothy J. Guba, Michael A. J. Farrell Bottom Row Left to Right: Kristopher R. Konrad, Rose Marie Miller, Wellington J. St. Claire, Jennifer A. Stephens, Kathryn F. Fagan, James P. Fortescue (not pictured)

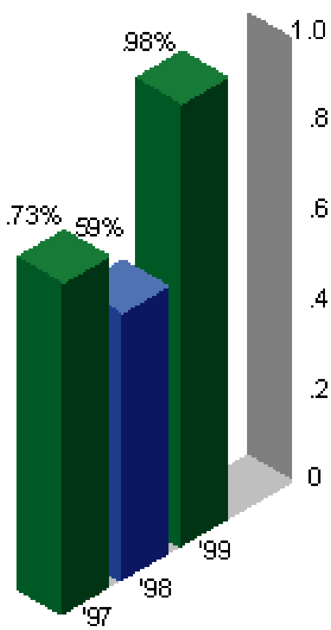
Net Income ($ in millions)



Net Interest Income ($ in millions)



Interest Rate Spread



"Net income increased by 17% for the year ended December 31, 1999 over the previous year. Income for the year ended December 31, 1999 reflects an improvement in net interest income and less dependence on gains on disposition of assets, when compared to the year ended December 31, 1998. This is the result of improved net interest spread. Our net interest spread, which equals the yield on our average assets for the period less the average cost of funds for the period, was 0.98% for 1999 as compared to 0.59% for 1998."

Annaly Corporate Profile

Annaly Mortgage Management, Inc owns and manages a portfolio of mortgage-backed securities. Our principal business objective is to generate net income for distribution to our stockholders from the spread between the interest income on our mortgage-backed securities and costs of borrowing to finance our acquisition of mortgage-backed securities. We have elected to be taxed as a real estate investment trust (or REIT) under the Internal Revenue Code. We commenced operations on February 18, 1997. We are self-advised and self-managed.

Financial Highlights

(dollars in thousands, except for per share data)	For the Year Ended December 31, 1999	For the Year Ended December 31, 1998	February 18, 1997 (commencemnt of operations) through December 31, 1997 (1)
Statement of Operations Date			
Days in period	365	365	317
Interest income	$89,812	$89,986	$24,713
Interest expense	69,846	75,735	19,677
Net interest income	$19,966	$14,251	$5,036
Gain on sale of mortgage-backed securities	454	3,344	735
General and administrative expenses (G&A expense)	2,281	2,106	852
Net income	$18,139	$15,489	$4,919
Basic net income per average share	$1.41	$1.22	$0.83
Diluted net income per average share	$1.35	$1.19	$0.80
Dividends declared per average share	$1.38	$1.21	$0.79
	December 31, 1999	December 31, 1998	December 31, 1997
Balance Sheet Data:			
Mortgage-Backed Securities, net	$1,437,793	$1,520,289	$1,161,779
Total assets	1,491,322	1,527,352	1,167,740
Repurchase agreements	1,338,296	1,280,510	918,869
Total liabilities	1,388,050	1,401,481	1,032,654
Stockholders' equity	103,272	125,871	135,086
Number of common shares outstanding	13,581,316	12,648,424	12,713,900

Other Data:			
Average total assets	$1,473,765	$1,499,875	$476,855
Average borrowings	1,350,230	1,360,040	404,140
Average equity	117,685	131,265	61,096
Yield on interest earning assets	6.15%	6.16%	6.34%
Cost of funds on interest bearing liabilities	5.17%	5.57%	5.61%
Interest rate spread	0.98%	0.59%	0.73%
Financial Ratios:			
Net interest margin			
(net interest income/average total assets)	1.35%	0.95%	1.22%
G&A expense as a percentage of average assets	0.15%	0.14%	0.21%
G&A expense as a percentage of average equity	1.94%	1.60%	1.61%
Return on average assets	1.23%	1.03%	1.19%
Return on average equity	15.41%	11.80%	9.27%
(1) Ratios for the 317-day period ended December 31, 1997 have been annualized.			

Management’s Discussion and Analysis of Financial Condition and Result of Operation

Safe Harbor Statement

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: Statements in this discussion regarding 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" Form 10-K for the year ended December 31, 1999.

Overview

We are a real estate investment trust that owns and manages a portfolio of mortgage-backed securities. Our principal business objective is to generate net income for distribution to our stockholders from the spread between the interest income on our mortgage-backed securities and the costs of borrowing to finance our acquisition of mortgage-backed securities.

We commenced operations on February 18, 1997 upon the consummation of a private placement. We completed our initial public offering on October 14, 1997.

The 317-day period ended December 31, 1997 was a short operating period and not a full twelve months. Also, average assets for the period ended December 31, 1997 totaled $476.9 million, whereas average assets for the year ended December 31, 1998 totaled $1.5 billion. As a result, the comparison of net income for the period ended February 18, 1997 and the year ended December 31, 1998 may show changes that may not be indicative of future periods.

Results of Operations Net Income Summary

For the year ended December 31, 1999, our GAAP net income was $18.1 million, or $1.41 basic earnings per average share, as compared to $15.5 million, or $1.22 basic earnings per average share, for the year ended December 31, 1998. We compute our GAAP net income per share by dividing net income by the weighted average number of shares of outstanding common stock during the period, which was 12,889,510 for the year ended December 31, 1999 and

12,709,116 for the year ended December 31, 1998. Dividends per weighted average number of shares outstanding for the year ended December 31, 1999 was $1.38 per share, or $18.0 million in total. Dividends per weighted average number of shares outstanding for the year ended December 31, 1998 was $1.22 per share, or $15.4 million in total. Our return on average equity was 15.41% for the year ended December 31, 1999 and 11.80% for the year ended December 31, 1998.

Net Income Summary	Year Ended December 31, 1998	Year Ended December 31, 1999
Interest Income	$89,812	$89,986
Interest Expense	69,846	75,735
Net Interest Income	19,966	14,251
Gain on Sale of Mortgage-Backed Securities	454	3,344
General and Administrative Expenses	2,281	2,106
Net Income	$18,139	$15,489
Average Number of Basic Shares Outstanding	12,889,510	12,709,116
Average Number of Diluted Shares Outstanding	13,454,007	13,020,648
Basic Net Income Per Share	$1.41	$1.22
Diluted Net Income Per Share	$1.35	$1.19
Average Total Assets	$1,473,765	$1,499,875
Average Equity	$117,685	$131,265
Annualized Return on Average Assets	1.23%	1.03%
Annualized Return on Average Equity	15.41%	11.80%

Taxable Income and GAAP Income

For the years ended December 31, 1999 and 1998, our income as calculated for tax purposes (taxable income) differed from income as calculated according to GAAP (GAAP income). Our taxable income for the year ended December 31, 1999 was approximately $18.4 million, or $1.43 per share, as compared to taxable income of $16.5 million, or $1.30 per share, for the year ended December 31, 1998. The differences were in the calculations of premium and discount amortization, gains on sale of mortgage-backed securities, and general and administrative expenses.

The distinction between taxable income and GAAP income is important to our stockholders because dividends are declared on the basis of taxable income. While we do not pay taxes so long as we satisfy the requirements for exemption from taxation pursuant to the REIT provisions of the Internal Revenue Code, each year we complete a corporate tax form on which taxable income is calculated as if we were to be taxed. This taxable income level determines the amount of dividends we can pay out over time. The table below presents the major differences between our GAAP and taxable income for the years ended December 31, 1999, 1998, and 1997, and the four quarters in 1999.

Taxable Income

(dollars in thousands)	GAAP Net Income	Taxable General & Administrative Differences	Taxable Mortgage Amortization Differences	Taxable Gain on Sale of Securities Differences	Taxable Net Income
For the Year Ended December 31, 1999	$18,139	$9	$814	$(525)	$18,437
For the Year Ended December 31, 1998	$15,489	$6	$959	$23	$16,477
For the Period Ended December 31, 1997	$4,919	$3	$(92)	$54	$4,884

For the Quarter Ended December 31, 1999	$4,444	$2	$21	$(288)	$4,179
For the Quarter Ended September 30, 1999	$4,513	$5	$(14)	$(235)	$4,269
For the Quarter Ended June 30, 1999	$4,864	$2	$363	—	$5,229
For the Quarter Ended March 31, 1999	$4,318	—	$444	$(2)	$4,760

Interest Income and Average Earning Asset Yield

We had average earning assets of $1.5 billion for the year ended December 31, 1999 and 1998. Our primary source of income for the years ended December 31, 1999 and 1998 was interest income. A portion of our income was generated by gains on the sales of our mortgage-backed securities. Our interest income was $89.8 million for the year ended December 31, 1999 and $90.0 million for the year ended December 31, 1998. Our yield on average earning assets was 6.15% and 6.16% for the same respective periods. Our average earning asset balance decreased by $756,000 for the year ended December 31, 1999 as compared to the year ended December 31, 1998. Interest income decreased by $174,000 for the year ended December 31, 1999 over prior year, due to the slight decline in the average earning asset balance and yield. The table below shows our average balance of cash equivalents and mortgage-backed securities, the yields we earned on each type of earning assets, our yield on average earning assets and our interest income for the years ended December 31, 1999 and 1998, and the period ended December 31, 1997, and the four quarters in 1999.

Average Earning Asset Yield

	Average Cash Equivalents	Average Mortgage Backed Securities	Average Earning Assets	Yield on Average Cash Equivalents	Yield on Average Mortgage-Backed Securities	Yield on Average Earning Assets	Interest Income
For the Year Ended December 31, 1999	$221	$1,461,033	$1,461,254	4.10%	6.15%	6.15%	$89,812
For the Year Ended December 31, 1998	$2	$1,461,789	$1,461,791	4.32%	6.16%	6.16%	$89,986
For the Period Ended December 31, 1997	$30	$448,276	$0,448,306	4.20%	6.34%	6.34%	$24,713
For the Quarter Ended December 31, 1999	$2	$1,420,308	$1,420,310	4.05%	6.58%	6.58%	$23,371

For the Quarter Ended September 30, 1999	$877	$1,416,525	$1,417,404	4.10%	6.26%	6.25%	$22,161
For the Quarter Ended June 30, 1999	$2	$1,504,669	$1,504,671	4.30%	5.92%	5.92%	$22,265
For the Quarter Ended March 31, 1999	$2	$1,502,627	$1,502,629	4.01%	5.87%	5.87%	$22,015

The constant prepayment rate (or CPR) on our mortgage-backed securities for the year ended December 31, 1999 was 18% and for the year ended December 31, 1998 was 23%. CPR is an assumed rate of prepayment for our mortgage-backed securities, expressed as an annual rate of prepayment relative to the outstanding principal balance of our mortgage-backed securities. CPR does not purport to be either a historical description of the prepayment experience of our mortgage-backed securities or a prediction of the anticipated rate of prepayment of our mortgage-backed securities.

Principal prepayments had a negative effect on our earning asset yield for the years ended December 31, 1999 and 1998 because we adjust our rates of premium amortization and discount accretion monthly based upon the effective yield method, which takes into consideration changes in prepayment speeds.

Interest Expense and the Cost of Funds

We anticipate that our largest expense will be the cost of borrowed funds. We had average borrowed funds of $1.4 billion and total interest expense of $69.8 million for the year ended December 31, 1999. We had average borrowed funds of $1.4 billion and total interest expense of $75.7 million for the year ended December 31, 1998. Our average cost of funds was 5.17% for the year ended December 31, 1999 and 5.57% for the year ended December 31, 1998. The cost of funds rate declined 0.40% and the average borrowed funds declined by $9.8 million for the year ended December 31, 1999 when compared to the year ended December 31, 1998; consequently, interest expense decreased by 8%.

With our current asset/liability management strategy, changes in our cost of funds are expected to be closely correlated with changes in short-term LIBOR, although we may choose to extend the maturity of our liabilities at any time. Our average cost of funds was 0.08% below one-month LIBOR for the year ended December 31, 1999 and equal to average one-month LIBOR for the year ended December 31, 1998. We generally have structured our borrowings to adjust with one-month LIBOR because we believe that one-month LIBOR may continue to be lower than six-month LIBOR in the present interest rate environment. During the year ended December 31, 1999, average one-month LIBOR, which was 5.25%, was 0.28% lower than average six-month LIBOR, which was 5.53%. During the year ended December 31, 1998, average one-month LIBOR, which was 5.57%, was 0.03% higher than average six-month LIBOR, which was 5.54%.

The table below shows our average borrowed funds and average cost of funds as compared to average one-month and average six-month LIBOR for the years ended December 31, 1999 and 1998, the period ended December 31, 1997 and the four quarters in 1999.

(dollars in thousands)	Average Borrowed Funds	Interest Expense	Average Cost of Funds	Average One-Month LIBOR	Average Six-Month LIBOR	Average One-Month LIBOR Relative toAverage 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 Year Ended December 31, 1999	$1,350,230	$69,846	5.17%	5.25%	5.53%	(0.28%)	(0.08%)	(0.36%)
For the Year Ended December 31, 1998	$1,360,040	$75,735	5.57%	5.57%	5.54%	0.03%	–	0.03%
For the Period Ended December 31, 1997	$404,140	$19,677	5.61%	5.67%	5.87%	(0.20%)	(0.06%)	(0.26%)
For the Quarter Ended December 31, 1999	$1,324,326	$18,597	5.61%	5.78%	6.08%	(0.30%)	(0.17%)	(0.47%)
For the Quarter Ended September 30, 1999	$1,320,776	$17,232	5.22%	5.28%	5.80%	(0.52%)	(0.06%)	(0.58%)
For the Quarter Ended June 30, 1999	$1,374,154	$16,865	4.91%	4.96%	5.19%	(0.23%)	(0.05%)	(0.28%)
For the Quarter Ended March 31, 1999	$1,381,663	$17,151	4.97%	4.96%	5.05%	(0.09%)	0.01%	(0.08%)

Net Interest Rate Agreement Expense

We have not entered into any interest rate agreements to date. As part of our asset/liability management process, we may enter into interest rate agreements such as interest rate caps, floors or swaps. These agreements would be entered into with the intent to reduce interest rate or prepayment risk and would be designed to provide us income and capital appreciation in the event of certain changes in interest rates. However, even after entering into these agreements, we would still be exposed to interest rate and prepayment risks. We review the need for interest rate agreements on a regular basis consistent with our capital investment policy.

Net Interest Income

Our net interest income, which equals interest income less interest expense, totaled $20.0 million for the year ended December 31, 1999 and $14.3 million for the year ended December 31, 1998. Our net interest income increased because of lower funding costs for the year. Our net interest spread, which equals the yield on our average assets for the period less the average cost of funds for the period, was 0.98% for the year ended December 31, 1999 as compared to 0.59% for the year ended December 31, 1998. This 0.39% increase in spread income is reflected in the $6.7 million increase in net interest income. Net interest margin, which equals net interest income divided by average interest earning assets, was 1.35% for the year ended December 31, 1999 and 0.95% for the year ended December 31, 1998. The principal reason that net interest margin exceeded net interest spread is that average interest earning assets exceeded average interest bearing liabilities. A portion of our assets is funded with equity rather than borrowings. We did not have any interest rate agreement expenses to date.

The table below shows our 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 years ended December 31, 1999 and 1998, the period ended December 31, 1997, and the four quarters in 1999.

GAAP Net Interest Income

(dollars in thousands)	Average Mortgage-Backed Securities Held	Interest Income on Mortgage-Backed Securities	Average 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 Year Ended December 31, 1999	$1,461,033	$89,801	Cash	$89,812	6.15%	$1,350,230	$69,846	5.17%	$19,966
For the Year Ended December 31, 1998	$1,461,789	$89,986	$2	$89,986	6.16%	$1,360,040	$75,735	5.57%	$14,251
For the Period Ended December 31, 1997	$448,276	$24,682	$31	$24,713	6.34%	$404,140	$19,677	5.61%	$5,036
For the Quarter Ended December 31, 1999	$1,420,308	$23,372	$2	$23,372	6.58%	$1,324,326	$18,597	5.61%	$4,774
For the Quarter Ended September 30, 1999	$1,416,525	$22,151	$877	$22,160	6.26%	$1,320,776	$17,232	5.22%	$4,929

For the Quarter Ended June 30, 1999	$1,504,669	$22,265	$2	$22,265	5.92%	$1,374,154	$16,865	4.91%	$5,399
For the Quarter Ended March 31, 1999	$1,502,629	$22,015	$2	$22,015	5.87%	$1,381,663	$17,151	4.97%	$4,864

Gains and Losses on Sales of Mortgage-Backed Securities

For the year ended December 31, 1999, we sold mortgage-backed securities with an aggregate historical amortized cost of $167.3 million for an aggregate gain of $455,000. For the year ended December 31, 1998, we sold mortgage-backed securities with an aggregate historical amortized cost of $565.2 million for an aggregate gain of $3.3 million. As stated above, our gain on the sale of assets declined substantially. For the year ended December 31, 1999, there was a greater emphasis on spread income and not gains. The difference between the sale price and the historical amortized cost of our mortgage-backed securities is a realized gain and increases income accordingly. We do not expect to sell assets on a frequent basis, but may from time to time sell existing assets to move into new assets, which our management believes might have higher risk-adjusted returns, or to manage our balance sheet as part of our asset/liability management strategy.

Credit Losses

We have not experienced credit losses on our mortgage-backed securities to date. We have limited our exposure to credit losses on our mortgage-backed securities by purchasing only securities, issued or guaranteed by FNMA, FHLMC or GNMA, which, although not rated, carry an implied "AAA" rating.

General and Administrative Expenses

G&A expenses were $2.3 million for the year ended December 31, 1999 and $2.1 million for the year ended December 31, 1998. G&A expenses as a percentage of average assets was 0.15% and 0.14% for the years ended December 31, 1999 and 1998, respectively. G&A expenses increased by $175,000 for 1999, when compared to 1998. Salaries and benefits increased by $102,000, with the addition of one employee and higher benefits cost. Also, accounting, legal, and printing cost increased for the year as a direct result of secondary offering cost.GAAP G&A Expenses and Operating Expense Ratios

(dollars in thousands)	Cash Expense Compensation and Benefits	Other G&A Expenses	Total G&A Expenses	Total G&A Expenses/ Average Assets (annualized)	Total G&A Expenses/ Average Equity (annualized)
For the Year Ended December 31, 1999	$1,312	$969	$2,281	0.15%	1.94%
For the Year Ended December 31, 1998	$1,210	$896	$2,106	0.14%	1.60%

For the Period Ended December 31, 1997	$492	$360	$852	0.21%	1.61%
For the Quarter Ended December 31, 1999	$304	$292	$596	0.16%	2.21%
For the Quarter Ended September 30, 1999	$337	$177	$514	0.14%	1.81%
For the Quarter Ended June 30, 1999	$338	$223	$561	0.15%	1.44%
For the Quarter Ended March 31, 1999	$333	$277	$610	0.16%	1.93%

Net Income and Return on Average Equity

Our net income was $18.1 million for the year ended December 31, 1999 and $15.5 million for the year ended December 31, 1998. Our return on average equity was 15.4% for the year ended December 31, 1999 and 11.8% for the year ended December 31, 1998. The increase in net income is a direct result of an increase in spread income.

As previously mentioned, the substantial decline in interest expense was the primary reason that our earnings increased. The table below shows our net interest income, gain on sale of mortgage-backed securities and G&A expenses each as a percentage of average equity, and the return on average equity for the years ended December 31, 1999, 1998, and the period ended December 31, 1997, and for the four quarters in 1999.

Components of Return on Average Equity

(Ratios for the Quarters Ended December 31, 1999, September 30, 1999, June 30, 1999, March 31, 1999 and the Period ended December 31, 1997 are annualized)	Net Interest Income/Average Equity	Gain on Sale of Mortgage-Backed Securities/Average Equity	G&A Expenses/ Average Equity	Return on Average Equity
For the Year Ended December 31, 1999	16.97%	0.38%	1.94%	15.41%
For the Year Ended December 31, 1998	10.85%	2.55%	1.60%	11.80%
For the Period Ended December 31, 1997	9.49%	1.39%	1.61%	9.27%
For the Quarter Ended December 30, 1999	17.65%	0.99%	2.21%	16.43%
For the Quarter Ended September 30, 1999	17.40%	0.34%	1.81%	15.93%

For the Quarter Ended June 30, 1999	17.99%	0.08%	1.87%	16.20%
For the Quarter Ended March 31, 1999	15.43%	0.20%	1.93%	13.70%

Dividends and Taxable Income

We have elected to be taxed as a REIT under the Internal Revenue Code. Accordingly, we have distributed substantially all of our taxable income for each year since inception to our stockholders, including income resulting from gains on sales of our mortgage-backed securities. From inception through December 31, 1999, approximate taxable income exceeded dividend declarations by $1.7 million, or $0.12 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 Payout Ratio	Cumulative Undistributed Taxable Income
For the Year Ended December 31, 1999	$18,437	12,889,510	$1.43	$1.39	$17,978	97.5%	$1,697
For the Year Ended December 31, 1998	$16,477	12,709,116	$1.30	$1.21	$15,437	93.7%	$1,234
For the Period Ended December 31, 1997	$4,884	5,952,123	$0.82	$0.79	$4,690	96.0%	$194
For the Quarter Ended December 31, 1999	$4,179	13,383,426	$0.31	$0.35	$4,754	113.74%	$1,697
For the Quarter Ended September 30, 1999	$4,269	12,745,416	$0.34	$0.35	$4,588	91.1%	$2,271
For the Quarter Ended June 30, 1999	$5,229	12,697,338	$0.41	$0.35	$4,444	87.1%	$2,589
For the Quarter Ended March 31, 1999	$4,760	12,657,884	$0.37	$0.33	$4,190	94.9%	$1,804

Financial Condition

Mortgage-Backed Securities

All of our mortgage-backed securities at December 31, 1999 were adjustable-rate or fixed-rate mortgage-backed securities backed by single-family mortgage loans. All of the mortgage assets underlying these mortgage-backed securities were secured with a first lien position on the underlying single-family properties. All our mortgage-backed securities were FHLMC, FNMA or GNMA mortgage pass-through certificates or CMOs, which carry an implied "AAA" rating. We mark-to-market all of our earning assets at liquidation value.

We accrete discount balances as an increase in interest income over the life of discount mortgage-backed securities and we amortize premium balances as a decrease in interest income over the life of premium mortgage-backed securities. At December 31, 1999 and 1998, we had on our balance sheet a total of $1.1 million and $609,000 respectively, of unamortized discount (which is the difference between the remaining principal value and current historical amortized cost of our mortgage-backed securities acquired at a price below principal value) and a total of $23.6 million and $24.9 million, respectively, of unamortized premium (which is the difference between the remaining principal value and the current historical amortized cost of our mortgage-backed securities acquired at a price above principal value).

We received mortgage principal repayments of $362.7 million for the year ended December 31, 1999 and $486.3 million for the year ended December 31, 1998. Given our current portfolio composition, if mortgage principal prepayment rates were to increase over the life of our mortgage-backed securities, all other factors being equal, our net interest income would decrease during the life of these mortgage-backed securities as we would be required to amortize our net premium balance into income over a shorter time period. Similarly, if mortgage principal prepayment rates were to decrease over the life of our mortgage-backed securities, all other factors being equal, our net interest income would increase during the life of these mortgage-backed securities as we would amortize our net premium balance over a longer time period.

The table below summarizes our mortgage-backed securities at December 31, 1999, 1998 and 1997, September 30, 1999, June 30, 1999, and March 31, 1999.

Mortgage-Backed Securities

(dollars in thousands)	Principal Value	Net Premium	Amortized Cost	Amortized Cost/ Principal Value	Estimated Fair Value	Estimated Fair Value/ Principal Value	Weighted Yield Average
At December 31, 1999	$1,452,917	$22,444	$1,475,361	101.54%	$1,437,793	98.96%	6.77%
At December 31, 1998	$1,502,414	$24,278	$1,526,692	101.62%	$1,520,289	101.19%	6.43%
At December 31, 1997	$1,138,365	$21,390	$1,159,755	101.88%	$1,161,779	102.06%	6.57%
At September 30, 1999	$1,402,565	$22,981	$1,425,546	101.64%	$1,401,770	99.94%	6.41%
At June 30, 1999	$1,468,547	$24,985	$1,493,532	101.70%	$1,474,104	100.38%	6.21%

At March 31, 1999	$1,527,530	$26,071	$1,553,601	101.71%	$1,547,618	101.32%	5.94%

The tables below set forth certain characteristics of our mortgage-backed securities. 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	Principal Value at Period End as % of Total Mortgage-Backed Securities
At December 31, 1999	$951,839	7.33%	5.84%	1.49%	11 months	10.30%	7.64%	65.51%
At December 31, 1998	$1,030,654	6.84%	5.18%	1.66%	12 months	10.63%	6.42%	68.60%
At December 31, 1997	$994,653	7.13%	5.52%	1.61%	22 months	10.78%	6.50%	87.38%
At September 30, 1999	$889,293	6.76%	5.13%	1.63%	9 months	10.82%	6.14%	63.40%
At June 30, 1999	$941,559	6.67%	4.96%	1.71%	11 months	11.00%	5.84%	64.12%
At March 31, 1999	$1,036,947	6.63%	4.97%	1.66%	11 months	11.01%	5.64%	67.88%

Fixed-Rate Mortgage-Backed Security Characteristics

(dollars in thousands)	Principal Value	Weighted Average Coupon Rate	Weighted Average Asset Yield	Principal Value as % of Total Mortgage-Backed Securities
At December 31, 1999	$501,078	6.58%	7.01%	34.49%
At December 31, 1998	$471,760	6.55%	6.47%	31.40%
At December 31, 1997	$143,712	7.50%	7.08%	12.62%
At December 31, 1999				
At September 30, 1999	$513,272	6.58%	6.91%	36.60%
At June 30, 1999	$526,988	6.58%	6.88%	35.88%
At March 31, 1999	$401,002	6.82%	6.65%	26.02%

At December 31, 1999 and 1998 we held mortgage-backed securities with coupons linked to the one-year, three-year, and five-year Treasury indices, one-month LIBOR and the six-month CD rate.

Adjustable-Rate Mortgage-Backed Securities by Index

December 31, 1999	One-Month LIBOR	Six-Month CD Rate	1-Year Treasury Index	3-Year Treasury Index	5-Year Treasury Index
Weighted Average Adjustment Frequency	1 mo.	6 mo.	12 mo.	36 mo.	60 mo.
Weighted Average Term to Next Adjustment	1 mo.	2 mo.	25 mo.	16 mo.	36 mo.
Weighted Average Annual Period Cap	None	1.00%	1.93%	1.57%	1.35%
Weighted Average Lifetime Cap at December 31, 1999	9.20%	11.36%	11.19%	13.23%	11.68%
Mortgage Principal Value as Percentage of Mortgage-Backed Securities at December 31, 1999	34.89%	2.12%	22.62%	5.22%	0.66%

Adjustable-Rate Mortgage-Backed Securities by Index

December 31, 1998	One-Month LIBOR	Six-Month CD Rate	1-Year Treasury Index	3-Year Treasury Index	5-Year Treasury Index
Weighted Average Adjustment Frequency	1 mo.	6 mo.	12 mo.	36 mo.	60 mo.
Weighted Average Term to Next Adjustment	1 mo.	3 mo.	23 mo.	9 mo.	2 mo.
Weighted Average Annual Period Cap	None	1.00%	1.83%	2.00%	2.00%
Weighted Average Lifetime Cap at December 31, 1998	9.16%	11.04%	11.76%	13.07%	11.57%
Mortgage Principal Value as Percentage of Mortgage-Backed Securities at December 31, 1998	29.60%	3.73%	33.33%	1.62%	0.32%

Interest Rate Agreements

Interest rate agreements are assets that are carried on a balance sheet at estimated liquidation value. We have not entered into any interest rate agreements since our inception.

Borrowings

To date, our debt has consisted entirely of borrowings collateralized by a pledge of our mortgage-backed securities. These borrowings appear on our balance sheet as repurchase agreements. At December 31, 1999, we had established uncommitted borrowing facilities in this market with twenty-three lenders in amounts, which we believe, are in excess of our needs. All of our mortgage-backed securities are currently accepted as collateral for these borrowings. However, we limit our borrowings, and thus our potential asset growth, in order to maintain unused borrowing capacity and thus increase the liquidity and strength of our balance sheet.

For the years ended December 31, 1999 and 1998, the term to maturity of our borrowings ranged from one day to one year, with a weighted average original term to maturity of 50 days at December 31, 1999 and 49 days at December 31, 1998. At December 31, 1999, the weighted average cost of funds for all of our borrowings was 5.26% and the weighted average term to next rate adjustment was 20 days. At December 31, 1998, the weighted average cost of funds for all of our borrowings was 5.21% and the weighted average term to next rate adjustment was 29 days.

Liquidity

Liquidity, which is our ability to turn non-cash assets into cash, allows us to purchase additional mortgage-backed securities and to pledge additional assets to secure existing borrowings should the value of our pledged assets decline. Potential immediate sources of liquidity for us include cash balances and unused borrowing capacity. Unused borrowing capacity will vary over time as the market value of our mortgage-backed securities varies. Our balance sheet also generates liquidity on an on-going basis through mortgage principal repayments and net earnings held prior to payment as dividends. Should our needs ever exceed these on-going sources of liquidity plus the immediate sources of liquidity discussed above, we believe that our mortgage-backed securities could in most circumstances be sold to raise cash. The maintenance of liquidity is one of the goals of our capital investment policy. Under this policy, we limit asset growth in order to preserve unused borrowing capacity for liquidity management purposes.

Stockholders’ Equity

We use "available-for-sale" treatment for our mortgage-backed securities; we carry these assets on our balance sheet at estimated market value rather than historical amortized cost. Based upon this "available-for-sale" treatment, our equity base at December 31, 1999 was $103.3 million, or $7.60 per share. If we had used historical amortized cost accounting, our equity base at December 31, 1999 would have been $140.8 million, or $10.37 per share. Our equity base at December 31, 1998 was $125.9 million, or $9.95 per share. If we had used historical amortized cost accounting, our equity base at December 31, 1998 would have been $132.3 million, or $10.46 per share. During the year ended December 31, 1999, the Company raised additional capital in the amount of $8.2 million through its direct purchase program.

With our "available-for-sale" accounting treatment, unrealized fluctuations in market values of assets do not impact our GAAP or taxable income but rather are reflected on our balance sheet by changing the carrying value of the asset and stockholders’ equity under "Accumulated Other Comprehensive Income (Loss)." By accounting for our assets in this manner, we hope 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, our book value and book value per share are likely to fluctuate far more than if we 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 not be meaningful.

The table below shows unrealized gains and losses on the mortgage-backed securities in our portfolio.

Unrealized Gains and Losses

(dollars in thousands)	At December 31, 1999	At Decmber 31, 1998	At Decmber 31, 1997
Unrealized Gain	$1,531	$3,302	$3,253
Unrealized Loss	(39,100)	(9,706)	(1,229)
Net Unrealized Gain (Loss)	$(37,569)	$(6,404)	$(2,024
Net Unrealized Gain (Loss) as % of Mortgage-Backed Securities Principal Value	(2.59%)	(0.43%)	0.18%
Net Unrealized Gain (Loss) as % of Mortgage-Backed Securities Amortized Cost	(2.54%)	(0.42%)	0.17%

Unrealized changes in the estimated net market value of mortgage-backed securities have one direct effect on our potential earnings and dividends: positive market-to-market changes increase our equity base and allow us to increase our borrowing capacity while negative changes tend to limit borrowing capacity under our capital investment policy. A very large negative change in the net market value of our mortgage-backed securities might impair our liquidity position, requiring us to sell assets with the likely result of realized losses upon sale. "Unrealized Losses on Available for Sale Securities" was $37.6 million, or 2.54% of the amortized cost of our mortgage-backed securities at December

31, 1999. "Unrealized Losses on Available for Sale Securities" was $6.4 million or 0.43% of the amortized cost of our mortgage-backed securities at December 31, 1998.

The table below shows our equity capital base as reported and on a historical amortized cost basis at December 31, 1999, 1998, and 1997, and September 30, 1999, June 30, 1999 and March 31,1999. Issuances of common stock, the level of GAAP earnings as compared to dividends declared, and other factors influence our historical cost equity capital base. The GAAP reported equity capital base is influenced by these factors plus changes in the "Net Unrealized Losses on Assets Available for Sale" account.

Stockholders' Equity

(dollars in thousands, except per share data)	Historical Amortized Cost Equity Base	Net Unrealized Gains on Assets Available for Sale	GAAP Reported Equity Base (Book Value)	Historical Amortized Cost Equity Per Share	GAAP Reported Equity (Book Value) Per Share
At December 31, 1999	$140,841	$(37,569)	$103,272	$10.37	$7.60
At December 31, 1998	$132,275	$(6,404)	$125,871	$10.46	$9.95
At December 31, 1997	$133,062	$2,024	$135,086	$10.47	$10.62
At September 30, 1999	$136,850	$(23,776)	$113,074	$10.44	$8.63
At June 30, 1999	$133,020	$(19,428)	$113,592	$10.48	$8.95
At March 31, 1999	$133,055	$(1,910)	$131,145	$10.43	$10.28

Leverage

Our debt-to-GAAP reported equity ratio at December 31, 1999 and, 1998 was 12.9:1 and 10.1:1, respectively. We generally expect to maintain a ratio of debt-to-equity of between 8:1 and 12:1, although the ratio may vary from this range from time to time based upon various factors, including our management's opinion of the level of risk of our assets and liabilities, our liquidity position, our level of unused borrowing capacity and over-collateralization levels required by lenders when we pledge assets to secure borrowings.

Our target debt-to-GAAP reported equity ratio is determined under our capital investment policy. Should our actual debt-to-equity ratio increase above the target level due to asset acquisition or market value fluctuations in assets, we will cease to acquire new assets. Our management will, at that time, present a plan to our Board of Directors to bring us back to our target debt-to-equity ratio; in many circumstances, this would be accomplished in time by the monthly reduction of the balance of our mortgage-backed securities through principal repayments.

Asset/Liability Management and Effect of Changes in Interest Rates

We continually review our asset/liability management strategy with respect to interest rate risk, mortgage prepayment risk, credit risk and the related issues of capital adequacy and liquidity. We seek attractive risk-adjusted stockholder returns while maintaining a strong balance sheet.

We seek to manage the extent to which our net income changes as a function of changes in interest rates by matching adjustable-rate assets with variable-rate borrowings. In addition, although we have not done so to date, we may seek to mitigate the potential impact on net income of periodic and lifetime coupon adjustment restrictions in our portfolio of mortgage-backed securities by entering into interest rate agreements such as interest rate caps and interest rate swaps.

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. We will seek to mitigate the effect of changes in the mortgage principal repayment rate by balancing assets we purchase at a premium with assets we purchase at a discount. To date, the aggregate premium exceeds the aggregate discount on our mortgage-backed securities. As a result, prepayments, which result in the expensing of unamortized premium, will reduce our net income compared to what net income would be absent such prepayments.

Inflation

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

Other Matters

We calculate that our qualified REIT assets, as defined in the Internal Revenue Code, are 99.5% of our total assets at December 31, 1999 and 1998, as compared to the Internal Revenue Code requirement that at least 75% of our total assets be qualified REIT assets. We also calculate that 99.5% and 96.4% of our revenue qualifies for the 75% source of income test, and 100% of its revenue qualifies for the 95% source of income test, under the REIT rules for the years ended December 31, 1999 and 1998, respectively. We also met all REIT requirements regarding the ownership of our common stock and the distribution of our net income. Therefore, as of December 31, 1999 and 1998, we believe that we qualified as a REIT under the Internal Revenue Code.

We at all times intend to conduct our business so as not to become regulated as an investment company under the Investment Company Act. If we were to become regulated as an investment company, then our 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, we must maintain at least 55% of our assets directly in qualifying interests. In addition, unless certain mortgage securities represent all the certificates issued with respect to an underlying pool of mortgages, the mortgage-backed 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. We calculate that as of December 31, 1999 and 1998 we were in compliance with this requirement.

Balance Sheets

December 31, 1999 and 1998	1999	1998
Assets		
Cash and Cash Equivalents	71,918	69,020
Mortgage-Backed Securities—At fair value	1,437,792,631	1,520,288,762
Receivable for Mortgage-Backed Securities sold	46,402,360	—
Accrued interest receivable	6,857,683	6,782,043
Other assets	197,896	212,214
Total assets	1,491,322,488	1,527,352,039
Liabilities and Stockholders’ Equity		
Liabilities:		
Repurchase agreements	1,338,295,750	1,280,510,000
Payable for Mortgage-Backed Securities purchased	38,154,012	111,921,205
Accrued interest payable	6,682,687	5,052,626

Dividends payable	4,753,461	3,857,663
Accounts payable	164,100	139,236
Total liabilities	1,388,050,010	1,401,480,730
Stockholders' Equity:		
Common stock: par value $.01 per share;100,000,000 authorized, 13,581,316 and 12,648,424 shares issued and outstanding, respectively	135,813	126,484
Additional paid-in capital	140,262,657	131,868,108
Accumulated other comprehensive loss	(37,568,510)	(6,404,275)
Retained earnings	442,518	280,992
Total stockholders' equity	103,272,478	125,871,309
Total Liabilities and Stockholders' Equity	1,491,322,488	1,527,352,039

See notes to financial statements.

Statements of Operations

Years Ended December 31, 1999 and 1998	1999	1998
Interest Income:		
Mortgage-Backed Securities	$89,801,353	$89,985,526
Other interest income	10,641	105
Total interest income	89,811,994	89,985,631
Interest Expense:		
Repurchase agreements	69,846,206	75,735,280
Net Interest Income	19,965,788	14,250,351
Gain on sale of Mortgage-Backed Securities	454,782	3,344,106
General and administrative expenses	2,281,290	2,105,534
Net Income	18,139,280	15,488,923
Other Comprehensive Loss:		
Unrealized loss on available-for-sale securities	(30,709,453)	(5,083,920)
Less reclassification adjustment for gains included in net income	(454,782)	(3,344,106)
Other comprehensive gain (loss)	(31,164,235)	(8,428,026)
Comprehensive Income	$(13,024,955)	$7,060,897
Net Income Per Share:		
Basic	$1.41	$1.22
Diluted	$1.35	$1.19
Average Number of Shares Outstanding:		
Basic	12,889,510	12,709,116
Diluted	13,454,007	13,020,648

See notes to financial statements.

Statement of Stockholders Equity

Years Ended December 31, 1999 and 1998	Common Stock Par Value	Additional Paid-in Capital	Comprehensive Income	Retained Earnings	Other Comprehensive Income	Total
Balance, December 31, 1997	$127,139	$132,705,765	$—	$229,623	$2,023,751	$135,086,278
Net income	—	—	15,488,923	15,488,923	—	—
Other comprehensive income:Unrealized net losses on securities, net of reclassification adjustment	—	—	(8,428,026)	—	(8,428,026)	—
Comprehensive income	—	—	$7,060,897	—	—	7,060,897
Exercise of stock options	441	194,658		—	—	195,099
Additional cost of initial public offering	—	(130,248)		—	—	(130,248)
Stock buyback	(1,096)	(902,067)		—	—	(903,163)
Dividends declared for the year ended December 31, 1998, $1.22 per average share						
	—	—		(15,437,554)	—	(15,437,554)
Balance, December 31, 1998	126,484	131,868,108		280,992	(6,404,275)	125,871,309
Net income	—	—	$18,139,280	18,139,280	—	—
Other comprehensive income:Unrealized net losses on securities, net of reclassification adjustment	—	—	(31,164,235)	—	(31,164,235)	—
Comprehensive income	—	—	$(13,024,955)	—	—	(13,024,955)
Exercise of stock options	572	232,704	—	—	233,276	
Proceeds from direct purchase	8,757	8,161,845		—	—	8,170,602
Dividends declared for the year ended December 31, 1999, $1.39 per average share	—	—		(17,977,754)	—	(17,977,754)

Balance, December 31, 1999	$135,813	$140,262,657		$442,518	$(37,568,510)	$103,272,478
Disclosure of reclassification amounts:Unrealized holding losses arising during period	—	—	$(30,709,453)	—	—	—
Less reclassification adjustment of gains included in net income	—	—	(454,782)	—	—	—
Net unrealized losses on securities	—	—	$(31,164,235)	—	—	—

See notes to financial statements.

Statement of Cash Flows

Years Ended December 31, 1999 and 1998	1999	1998
Cash Flows From Operating Activities:		
Net income	$18,139,280	$15,488,923
Adjustments to reconcile net income to net cash provided by operating activities: Amortization of mortgage premiums and discounts, net	6,103,239	8,235,371
Depreciation of fixed assets	22,670	14,154
Gain on sale of Mortgage-Backed Securities	(454,782)	(3,344,106)
Increase in accrued interest receivable	(98,310)	(1,443,182)
Decrease (increase) in other assets	14,318	(115,112)
Increase in accrued interest payable	1,630,061	60,179
Increase (decrease) in accounts payable	24,864	(62,740)
Net cash provided by operating activities	25,381,340	18,833,487
Cash Flows From Investing Activities:		
Purchase of Mortgage-Backed Securities	(559,695,956)	(1,420,592,798)
Proceeds from sale of Mortgage-Backed Securities	122,552,293	568,553,814
Principal payments on Mortgage-Backed Securities	362,657,549	486,337,605
Net cash used in investing activities	(74,486,114)	(365,701,379)
Cash Flows From Financing Activities:		
Proceeds from repurchase agreements	11,202,660,000	11,506,566,000
Principal payments on repurchase agreements	(11,144,874,250)	(11,144,925,000)
Proceeds from exercise of stock options	233,276	195,100
Proceeds from direct equity offering	8,170,602	—
Additional cost of initial public offering	—	(130,248)
Purchase of Treasury Stock	—	(903,163)

Dividends paid	(17,081,956)	(14,376,949)
Net cash provided by financing activities	49,107,672	346,425,740
Net Increase (decrease) in Cash and Cash Equivalents	2,898	(442,152)
Cash and Cash Equivalents, Beginning Of Year	69,020	511,172
Cash and Cash Equivalents, End Of Year	$71,918	$69,020
Supplemental Disclosure Of Cash Flow Information:		
Interest paid	$68,216,145	$75,675,101
Noncash Financing Activities:		
Net change in unrealized loss on available-for-sale securities	$(31,164,235)	$(8,428,026)
Dividends declared, not yet paid	$4,753,461	$3,857,663

See notes to financial statements.

Notes to Financial Statements

Years Ended December 31, 1999 and 1998

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 Mortgage-Backed Securities on February 18, 1997, upon receipt of the net proceeds from the private placement of equity capital. An initial public offering was completed on October 14, 1997.

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 mortgage-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 Certain Investments in Debt and Equity Securities ("SFAS 115"), 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 reported 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 years ended December 31, 1999 and 1998.

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, 1999 and 1998, the Company has limited its exposure to credit losses on its portfolio of Mortgage-Backed Securities by only purchasing securities from Federal Home Loan Mortgage 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, 1999 and 1998, 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.

Reclassifications–Certain prior year amounts have been reclassified to conform to the current year presentation.

2. Mortgage-Backed Securities

The following table pertains to the Company's Mortgage-Backed Securities classified as available-for-sale as of December 31, 1999, 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	$454,711,462	$900,782,563	$97,423,038	$1,452,917,063
Unamortized discount	(171,241)	(964,133)	–	(1,135,374)
Unamortized premium	8,454,547	13,359,448	1,765,457	23,579,452
Amortized cost	462,994,768	913,177,878	99,188,495	1,475,361,141
Gross unrealized gains	359,888	1,171,250	–	1,531,138
Gross unrealized losses	(12,091,145)	(22,966,353)	(4,042,150)	(39,099,648)
Estimated fair value	$451,263,511	$891,382,775	$95,146,345	$1,437,792,631

The following table pertains to the Company's Mortgage-Backed Securities classified as available-for-sale as of December 31, 1998, 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	$449,433,408	$955,650,670	$97,330,495	$1,502,414,573
Unamortized discount	(184,996)	(423,583)	–	(608,579)
Unamortized premium	8,852,370	14,264,277	1,770,397	24,887,044
Amortized cost	458,100,782	969,491,364	99,100,892	1,526,693,038
Gross unrealized gains	659,557	2,092,119	549,900	3,301,576
Gross unrealized losses	(3,487,784)	(5,692,759)	(525,309)	(9,705,852)
Estimated fair value	$455,272,555	$965,890,724	$99,125,483	$1,520,288,762

The adjustable rate Mortgage-Backed Securities are limited by periodic caps (generally interest rate adjustments are limited to no more than 1% every six months) and lifetime caps. The weighted average lifetime cap was 10.6% at December 31, 1999 and 1998.

During the year ended December 31, 1999, the Company realized $563,259 in gains from sales of Mortgage-Backed Securities. Losses totaled $108,477 for the year ended December 31, 1999. During the year ended December 31, 1998, the Company realized $3,344,070 in gains from sales of Mortgage-Backed Securities. Losses totaled $9,964 for the year ended December 31, 1998.

3. Repurchase Agreements

The Company had outstanding $1,338,295,750 and $1,280,510,000 of repurchase agreements with a weighted average borrowing rate of 5.26% and 5.21% and a weighted average remaining maturity of 20 days and 29 days as of December 31, 1999 and 1998, respectively. At December 31, 1999 and 1998, Mortgage-Backed Securities actually pledged had an estimated fair value of $1,376,684,559 and $1,458,669,078, respectively.

At December 31, 1999 and 1998, the repurchase agreements had the following remaining maturities:

	1999	1998
Within 30 days	$1,197,416,250	$1,222,542,000
30 to 59 days	25,767,000	31,346,000
60 to 89 days	–	26,622,000
90 to 119 days	115,112,500	–
	$1,338,295,750	$1,280,510,000

4. Common Stock

During the year ended December 31, 1999, 57,204 options were exercised at $233,276. Also, 875,688 shares were purchased in direct offerings, totaling $8,170,602. During the year ended December 31, 1998, 44,124 options were exercised at $195,099. Stock buybacks during the year ended December 31, 1998 totaled 109,600 shares at a cost of $903,163.

During the Company’s year ending December 31, 1999, the Company declared dividends to shareholders totaling $17,977,754, or $1.39 per weighted average share, of which $13,224,293 was paid during the year and $4,753,461 was paid on January 27, 2000. During the Company's year ending December 31, 1998, the Company declared dividends to shareholders totaling $15,437,554, or $1.22 per weighted average share, of which $11,579,891 was paid during the year and $3,857,663 was paid on January 25, 1999.

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. For the year ended December 31, 1999, the reconciliation is as follows:

Years Ended December 31, 1999	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Net income	$18,139,280		
Basic EPS	18,139,280	12,889,510	$1.41
Effect of dilutive securities:			
Dilutive stock options	–	564,497	
Diluted EPS	$18,139,280	13,454,007	$1.35

Options to purchase 708,380 shares were outstanding during the year (Note 6) and were dilutive as the exercise price (between $4.00 and $8.94) was less than the average stock price for the year for the Company of $9.58. Options to purchase 135,676 shares of stock were outstanding and not considered dilutive. The exercise price (between $10.00 and $11.25) was greater than the average stock price for the year of $9.58.

For the year ended December 31, 1998, the reconciliation is as follows:

Year Ending December 31, 1998	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Net income	$15,488,923		
Basic EPS	15,488,923	12,709,116	$1.22
Effect of dilutive securities:			
Dilutive stock options	–	311,532	
Diluted EPS	$15,488,923	13,020,648	$1.19

Options to purchase 446,084 shares were outstanding during the year (Note 6) and were dilutive as the exercise price (between $4.00 and $8.13) was less than the average stock price for the year for the Company of $9.36. Options to purchase 147,676 shares of stock were outstanding and not considered dilutive. The exercise price (between $10.00 and $11.28) was greater than the average stock price for the year of $9.36.

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 9.95% 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 vesting period of the options. The Company's net earnings per share would have been reduced to the pro forma amounts indicated below:

Year Ending December 31,	1999	1998
Net earnings–as reported	$18,139,280	$15,488,925
Net earnings–pro forma	18,010,908	15,280,631
Earnings per share–as reported	$1.41	$1.22
Earnings per share–pro forma	$1.40	$1.20

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 year ended December 31, 1999: dividend yield of 15%; expected volatility of 32%; risk-free interest rate of 5.61%; and the weighted average expected lives of seven years. For the year ended December 31, 1998, dividend yield of 10%; expected volatility of 33%; risk-free interest rate of 5.56%; and the weighted average expected lives of six years.

Information regarding options at December 31, 1999 is as follows:

	Options Outstanding	Weighted Average Exercise Price
Outstanding, January 1, 1999	593,760	$7.42
Granted (298,068 ISOs, 545,988 NQSOs)	307,500	8.63
Exercised	(57,204)	4.08
Expired	–	–
Outstanding, December 31, 1999	844,056	$8.03
Weighted average fair value of options granted during the year (per share)	$0.63	

Information regarding options at December 31, 1998, is as follows:

	Options Outstanding	Weighted Average Exercise Price
Outstanding, January 1, 1998	348,500	$6.42
Granted (282,272 ISOs, 311,488 NQSOs)	289,384	8.17
Exercised	(44,124)	4.34
Expired	–	–
Outstanding, December 31, 1998	593,760	$7.42
Weighted average fair value of options granted during the year (per share)	$1.99	

The following table summarizes information about stock options outstanding at December 31, 1999:

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life (Yrs.)
$4.00	122,502	2
8.13	278,378	9
8.63	300,000 /FONT>	10
8.94	7,500	3
10.00	125,750	2

10.75	7,500	3
11.25	2,426	3
	844,056	7.2

At December 31, 1999 and 1998, 162,389 and 56,241 options were vested and not exercised, respectively.

7. Comprehensive Income

The Company adopted FASB Statement No. 130, Reporting Comprehensive Income. Statement No. 130 requires the reporting of comprehensive income in addition to net income from operations. Comprehensive income is a more inclusive financial reporting methodology that includes disclosure of certain financial information that historically has not been recognized in the calculation of net income. The Company at December 31, 1999 and 1998 held securities classified as available-for-sale. At December 31, 1999, the net unrealized losses totaled $37,568,510 and at December 31, 1998, the net unrealized losses totaled $6,404,275.

8. Lease Commitments

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

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

2000	$95,299
2001	97,868
2002	100,515
2003	110,261
2004	113,279
2005	116,388
2006	119,590
2007	122,888
Total remaining lease payments	$876,088

9. Related Party Transaction

Included in "Other Assets" on the Balance sheet is an investment in Annaly International Money Management, Inc. On June 24, 1998, the Company acquired 99,960 nonvoting shares, at a cost of $49,980. The officers and directors of Annaly International Money Management Inc. are also officers and directors of the Company.

10.Summarized Quarterly Results (Unaudited)

The following is a presentation of the quarterly results of operations for the year ended December 31, 1999.

Quarters Ending	March 31, 1999	June 30, 1999	September 30, 1999	December 31, 1999
Interest income from Mortgage-Backed Securities and cash	$22,014,941	$22,264,930	$22,161,272	$23,370,851
Interest expense on repurchase agreements	17,151,041	16,865,824	17,232,086	18,597,255
Net interest income	4,863,900	5,399,106	4,929,186	4,773,596
Gain on sale of Mortgage-Backed Securities	64,560	25,853	97,656	266,713

General and administrative expenses	610,004	561,010	513,60	596,676
Net income	$4,318,456	$4,863,949	$4,513,242	$4,443,633
Net income per share:				
Basic	$0.34	$0.38	$0.35	$0.33
Dilutive	$0.33	$0.37	$0.35	$0.32
Average number of shares outstanding:				
Basic	12,657,884	12,697,338	12,745,416	13,383,426
Dilutive	12,952,822	13,110,275	13,025,096	13,992,414

The following is a presentation of the quarterly results of operations for the year ended December 31, 1998.

Quarters Ending	March 31, 1998	June 30, 1998	September 30, 1998	December 31, 1999
Interest income from Mortgage-Backed Securities and cash	$20,078,721	$23,761,953	$24,008,567	$22,136,390
Interest expense on repurchase agreements	16,313,474	20,177,580	20,765,301	18,478,925
Net interest income	3,765,247	3,584,373	3,243,266	3,657,465
Gain on sale of Mortgage-Backed Securities	1,427,084	295,875	993,630	627,517
General and administrative expenses	484,181	493,718	528,240	599,185
Net income	$4,708,150	$3,386,530	$3,708,656	$3,685,797
Net income per share:				
Basic	$0.37	$0.27	$0.29	$0.29
Dilutive	$0.36	$0.26	$0.29	$0.29
Average number of shares outstanding:				
Basic	12,727,405	12,757,674	12,704,194	12,648,116
Dilutive	12,923,195	12,959,771	12,785,765	12,731,192

Independent Auditors Report

Deloitte &
Touche

Independent Auditors Report
To the Stockholders of
Annaly Mortgage Management, Inc.

We have audited the accompanying balance sheets of Annaly Mortgage Management, Inc. (the "Company") as of December 31, 1999 and 1998, and the related statements of operations, stockholders' equity and cash flows for the years ended December 31, 1999 and 1998. 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 audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting 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 audits provide 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, 1999 and 1998 and the results of its operations and its cash flows for the year ended December 31, 1999 and 1998 in conformity with generally accepted accounting principles.

Deloitte & Touche LLP

Deloitte & Touche, L.L.P.
New York, New York
February 11, 2000
Common Stock and Market Data

The Company's Common Stock began trading October 8, 1997 on the New York Stock Exchange under the trading symbol NLY.

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

	High	Stock Prices Low	Close
First Quarter ended March 31, 1999	$10.25	$7.94	$10.25
Second Quarter ended June 30, 1999	$11.38	$9.31	$11.25
Third Quarter ended September 30, 1999	$11.50	$9.19	$9.31
Fourth Quarter ended December 31, 1999	$9.44	$8.06	$8.75
First Quarter ended March 31, 1998	$11.75	$10.00	$11.81
Second Quarter ended June 30, 1998	$11.31	$8.69	$9.06
Third Quarter ended September 30, 1998	$9.00	$6.75	$8.13

Fourth Quarter ended December 31, 1998	$9.00	$6.13	$8.25

	Cash Dividends Declared Per Share
First Quarter ended March 31, 1999	$0.33
Second Quarter ended June 30, 1999	$0.35
Third Quarter ended September 30, 1999	$0.35
Fourth Quarter ended December 31, 1999	$0.35
First Quarter ended March 31, 1998	$0.32
Second Quarter ended June 30, 1998	$0.32
Third Quarter ended September 30, 1998	$0.27
Fourth Quarter ended December 31, 1998	$0.305
Fourth Quarter ended December 31, 1997	$0.22

We intend to pay quarterly dividends and to make distributions to our stockholders in amounts that all or substantially all of our taxable income in each year (subject to certain adjustments) is distributed. This will enable us to qualify for the tax benefits accorded to a REIT under the Code. All distributions will be made at the discretion of our Board and will depend on our earnings, our financial condition, maintenance of our REIT status and such other factors as our Board of Directors may deem relevant from time to time.

Corporate Officers

Michael A.J. Farrell
Chairman of the Board &
Chief Executive Officer

Wellington J. St. Claire
Vice Chairman &
Chief Investment Officer

Timothy J. Guba
President & Chief Operating Officer

Kathryn F. Fagan
Chief Financial Officer & Treasurer

Jennifer A. Stephens
Senior Vice President &
Corporate Secretary

James P. Fortescue
Vice President

Kristopher R. Konrad
Assistant Vice President

Rose-Marie Miller

Assistant Vice President

Board of Directors

Michael A.J. Farrell
Chairman of the Board &
Chief Executive Officer

Wellington J. St. Claire
Vice Chairman &
Chief Investment Officer

Timothy J. Guba
President & Chief Operating Officer

Kevin P. Brady
Founder & Principal
KPB Associates

Spencer I. Browne
Former President & Chief Executive Officer Asset Investors Corporation

Jonathan D. Green
President & Chief Executive Officer
Rockefeller Group Development Corporation

John A. Lambiase
Former Managing Director
Salomon Brothers, Inc.

Donnell A. Segalas
Principal Maplewood Partners

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Auditors

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Two World Financial Center
New York, New York 10281-1434

Stock Transfer Agent

Shareholder inquiries concerning dividend
payments, lost certificates, change of address:

ChaseMellon Shareholder Services, L.L.C

PO Box 3315
South Hackensack, New Jersey
07606-1915
(800) 851-9677
www.chasemellon.com

Stock Exchange Listing

The common stock is listed on the New York Stock Exchange (symbol: NLY)

Annual Meeting

The Annual Meeting of Stockholders will be held Monday, May 15, 2000 at 9 a.m. at 101 Park Avenue, New York, New York 39th Floor

Shareholder Communications

Copies of the Companys Annual Report and Financials may be obtained by writing the Corporate Secretary, by calling the investor relations hot line at 888-8ANNALY, or by visiting our website at www.annaly.com

About the cover:
Annaly Mortgage Management invests in mortgage-backed securities. To date, all of the mortgage assets underlying these mortgage-backed securities were secured with a first lien on the underlying single-family properties. Therefore, we hosted a contest for elementary school students to draw a picture of their house. We would like to thank all participants for the excellent drawings.