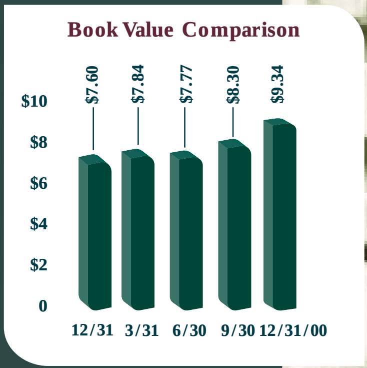
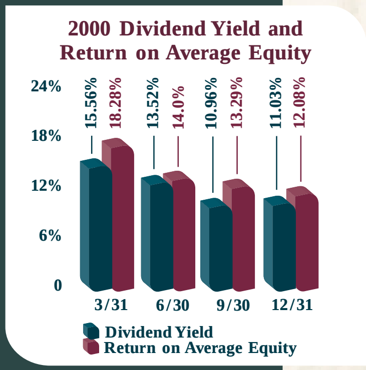
Annaly Mortgage Management, Inc.

Annual Report 2000

In the year 2000, the Company Experienced Substantial Appreciation in Book Value





Annaly provided double-digit returns and yields for all four quarters of 2000.

Timothy J. Guba
Kathryn F. Fagan
James P. Fortescue
Jennifer A. Stephens

Michael A. J. Farrell
Wellington J. St. Claire
Kristopher R. Konrad
Rose Marie Miller

To Our Fellow

To Our Fellow Shareholders:

In the remarkable four-year history of the firm, Annaly has been recognized as the top performing Company in its discipline. It has, since inception, generated a consistently positive earnings stream. It has prudently deployed its resources to take advantage of each opportunity as the years have gone by. In year 2000, the Company's management was challenged early on to repeat its 1999 performance where it outperformed a growth stock loaded Standard and Poor's Index by over a full percentage point. There were many in the investment community that doubted the ability of the Company, recognized as a value/income vehicle, to beat the Index two years in a row. As 2000 closed out, the jury is in and the verdict is out. Annaly outperformed the index by 26%. The promise we have made to investors since inception has been and will continue to be met.

I say this with some degree of confidence, but it is important to understand where that confidence comes from. The past several years have been among the roughest bond investment climate in my career. Wall Street is now littered with discredited technology deals, prominent investment professionals who have retired in the face of "irrational exuberance" and the task of cleaning up the excesses of the last decade lies ahead

During the course of the year, we always receive a number of inquiries asking the origin of the Company's name and the history behind it. I thought this year's letter offers an opportunity to discuss the Company, its results and tie it all together with a sense of balance against its history.

My parents came to this country in 1948, from Dublin, Ireland. My father, who served as a combat tank driver in the British army's Irish Guards during the War, left his late term pregnant wife in Dublin to come to New York and joined the thousands of immigrants from all nations who were laborers building post WWII New York. My mother, after giving birth to my older brother in Dublin, came to America a few months later, traveling alone with her baby on the maiden voyage of the Queen Mary. They came to America, raised a family, prospered as so many other immigrants have.

In medieval times, the Farrell clan was a leading family in the county of Longford, Ireland. The ancestral home was called Annaly. The crest that we use in our marketing materials is the Farrell family crest.

When we were exploring the capital markets in bringing a real estate investment trust to the development stage, it seemed logical to somehow try to link it to property so

Shareholders

Annaly became the "project development" surname. Since our investment activities center around government issued, residential mortgage securities, the name stuck as we began bringing the Company through the critical stages of being funded and going public.

The performance of our Company's management has been remarkable. Since inception, the Company has provided double-digit returns to shareholders. The team was able to provide shareholders with a 12.96% dividend yield for the year and an appreciation in book value of 33%. Time after time I have watched them rise to the occasion, identify and meet the challenge and move ahead. No compromises in investment philosophy. No distractions from the task at hand. What is most interesting is that they have been succeeding in such a brutal climate for so long that they are only now beginning to realize what my parents realized so long ago. After years of dealing with the Depression, then War they set their sights on new opportunities. They arrived at a time in their lives when they left behind everything that they were comfortable with, looked ahead and believed what I believe today; The best is yet to come.

Michael A.J. Farrell
March 17, 2001

Teamwork

Annaly's Management Team

Michael Farrell,
Chairman & CEO,
oversees daily
trading activity

Rose Marie Miller,
Assistant Portfolio Manager

Wellington St. Claire,
Vice Chairman and
Chief Portfolio Manager

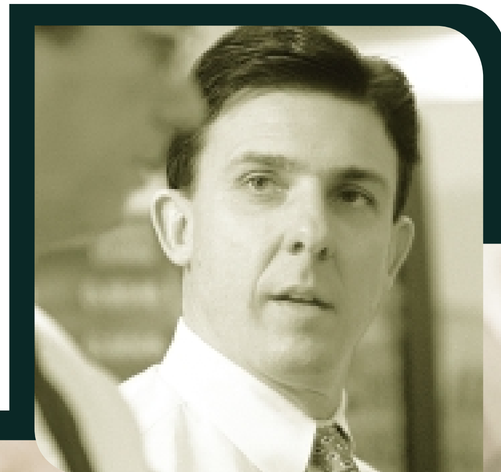
James Fortescue,
Repurchase
Agreement Trader

Stability

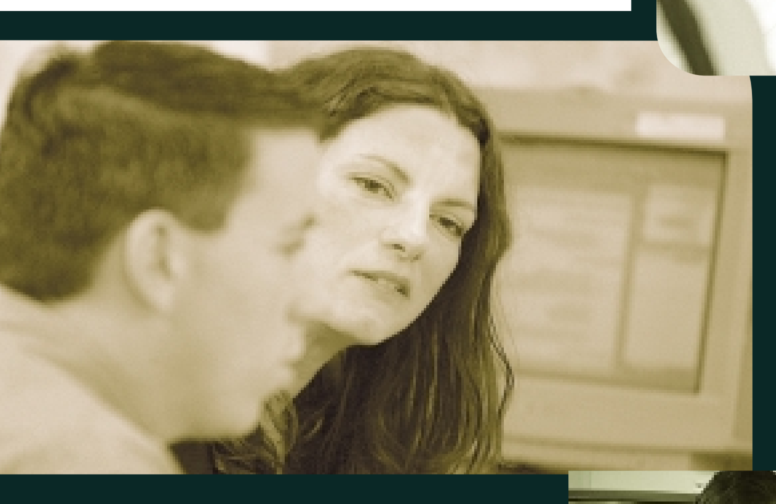
Senior Management brings to Annaly an average of 18 years of Wall Street trading, management and operations experience, with a specialization in mortgage securities. This Group founded and capitalized Annaly Mortgage Management, Inc. in November 1996. Successfully completing a Private Placement in February 1997, an IPO in October 1997 and a secondary offer-

Tim Guba,
President

Patience



Kathryn Fagan, Chief
Financial Officer



Integrity

Wellington and
James discussing
trading strategies

Trust

Jennifer Stephens, Secretary
and Portfolio Manager and
Kris Konrad, Portfolio
Manager executing a trade

ing in January 2001, Annaly has consistently generated double-digit returns for its shareholders. Annaly Mortgage Management's success, and future growth prospects are based on the ability of its strong and seasoned management team to deliver these excellent results in the extremely volatile markets.

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, 2000	For the Year Ended December 31, 1999	For the Year Ended December 31, 1998	February 18, 1997 (commencement of operations) through December 31, 1997[1]
Statement of Operations Data:				
Days in period	**365**	365	365	317
Interest income	**$ 109,750**	$ 89,812	$ 89,986	$ 24,713
Interest expense	**92,902**	69,846	75,735	19,677
Net interest income	**$ 16,848**	$ 19,966	$ 14,251	$ 5,036
Gain on sale of mortgage-backed securities	**2,025**	454	3,344	735
General and administrative expenses (G&A expense)	**2,286**	2,281	2,106	852
Net income	**$ 16,587**	$ 18,139	$ 15,489	$ 4,919
Basic net income per average share	**$ 1.18**	$ 1.41	$ 1.22	$ 0.83
Diluted net income per average share	**$ 1.15**	$ 1.35	$ 1.19	$ 0.80
Dividends declared per average share	**$ 1.15**	$ 1.38	$ 1.21	$ 0.79
Balance Sheet Data:				
Mortgage-Backed Securities, net	**$ 1,978,219**	$ 1,437,793	$ 1,520,289	$ 1,161,779
Total assets	**2,035,029**	1,491,322	1,527,352	1,167,740
Repurchase agreements	**1,628,359**	1,338,296	1,280,510	918,869
Total liabilities	**1,899,386**	1,388,050	1,401,481	1,032,654
Stockholders' equity	**135,642**	103,272	125,871	135,086
Number of common shares outstanding	**14,522,978**	13,581,316	12,648,424	12,713,900
Other Data:				
Average total assets	**$ 1,652,459**	$ 1,473,765	$ 1,499,875	$ 476,855
Average earning assets	**1,564,491**	1,461,254	1,461,791	448,306
Average borrowings	**1,449,999**	1,350,230	1,360,040	404,140
Average equity	**117,727**	117,685	131,265	61,096
Yield on interest earning assets	**7.02%**	6.15%	6.16%	6.34%
Cost of funds on interest bearing liabilities	**6.41%**	5.17%	5.57%	5.61%
Interest rate spread	**0.61%**	0.98%	0.59%	0.73%
Annualized Financial Ratios:				
Net interest margin (net interest income/average total assets)	**1.02%**	1.35%	0.95%	1.22%
G&A expense as a percentage of average assets	**0.14%**	0.15%	0.14%	0.21%
G&A expense as a percentage of average equity	**1.94%**	1.94%	1.60%	1.61%
Return on average assets	**1.00%**	1.23%	1.03%	1.19%
Return on average equity	**14.09%**	15.41%	11.80%	9.27%

[1] Ratios for the 317-day period ended December 31, 1997 have been annualized.

Financial Review

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

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.

Results of Operations

Net Income Summary

For the year ended December 31, 2000, our GAAP net income was $16.6 million, or $1.18 basic earnings per average share, as compared to $18.1 million, or $1.41 basic earnings per average share for the year ended December 31, 1999. For the year ended December 31, 1998, our GAAP net income was $15.5 million, or $1.22 basic earnings per average share. 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 14,089,436 for the year ended December 31, 2000, 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, 2000 was $1.15 per share, or $16.3 million in total. Dividends per weighted average number of shares outstanding for the year ended December 31, 1999 was $1.39 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 14.09% for the year ended December 31, 2000, 15.41% for the year ended December 31, 1999, and 11.80% year ended December 31, 1998. The table below presents the net income summary for the years ended December 31, 2000, 1999, 1998, the period ended December 31, 1997.

Net Income Summary

(dollars in thousands,except per share data)	Year Ended December 31, 2000	Year Ended December 31, 1999	Year Ended December 31, 1998	Year Ended December 31, 1997
Interest Income	**$ 109,750**	$ 89,812	$ 89,986	$ 24,713
Interest Expense	**92,902**	69,846	75,735	19,677
Net Interest Income	**$ 16,802**	$ 19,966	$ 14,251	$ 5,036
Gain on Sale of Mortgage-Backed Securities	**2,025**	454	3,344	735
General and Administrative Expenses	**2,286**	2,281	2,106	852
Net Income	**$ 16,587**	$ 18,139	$ 15,489	$ 4,919
Average Number of Basic Shares Outstanding	**14,089,436**	12,889,510	12,709,116	5,952,126
Average Number of Diluted Shares Outstanding	**14,377,459**	13,454,007	13,020,648	6,300,623
Basic Net Income Per Share	**$ 1.18**	$ 1.41	$ 1.22	$ 0.83
Diluted Net Income Per Share	**$ 1.15**	$ 1.35	$ 1.19	$ 0.80
Average Total Assets	**$ 1,652,459**	$ 1,473,765	$ 1,499,875	$ 476,855
Average Equity	**117,727**	117,685	131,265	61,096
Annualized Return on Average Assets	**1.00%**	1.23%	1.03%	1.19%
Annualized Return on Average Equity	**14.09%**	15.41%	11.80%	9.27%

Taxable Income and GAAP Income

For the years ended December 31, 2000, 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, 2000 was approximately $15.7 million, or $1.11 per share, as compared to taxable income of $18.4 million, or $1.43 per share, for the year ended December 31, 1999. 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, 2000, 1999, and 1998, the period ended December 31, 1997, and the four quarters in 2000.

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, 2000	**$16,587**	**$8**	**$(503)**	**$(392)**	**$ 15,700**
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, 2000	**$ 4,094**	**—**	**$ 116**	**$ (32)**	**$ 4,178**
For the Quarter Ended September 30, 2000	**$ 3,806**	**$ 6**	**$(156)**	**$(283)**	**$ 3,373**
For the Quarter Ended June 30, 2000	**$ 3,839**	**$ 1**	**$(167)**	**$ (79)**	**$ 3,594**
For the Quarter Ended March 31, 2000	**$ 4,848**	**$ 1**	**$(296)**	**$ 2**	**$ 4,555**

Interest Income and Average Earning Asset Yield

We had average earning assets of $1.6 billion for the year ended December 31, 2000. We had average earning assets of $1.5 billion for both years ended December 31, 1999 and 1998. Our primary source of income for the years ended December 31, 2000, 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 $109.8 million for the year ended December 31, 2000, $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 7.02%, 6.15%, and 6.16% for the same respective periods. Our yield on average earning assets increased by 0.87% and our average earning asset balance increased by $10.3 million for the year ended December 31, 2000 as compared to the year ended December 31, 1999. Interest income increased to $19.9 million for the year ended December 31, 2000 over prior year, due to the increase in average earning asset balance and yield. 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, 2000, 1999 and 1998, and the period ended December 31, 1997, and the four quarters in 2000.

Average Earning Asset Yield

(dollars in thousands)	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, 2000	**$ 263**	**$ 1,564,228**	**$1,564,491**	**4.18%**	**7.02%**	**7.02%**	**$109,750**
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	$ 448,306	4.20%	6.34 %	6.34 %	$ 24,713
For the Quarter Ended December 31, 2000	**$ 394**	**$ 1,741,985**	**$1,742,379**	**5.08%**	**7.16%**	**7.15%**	**$ 31,160**
For the Quarter Ended September 30, 2000	**$ 188**	**$ 1,590,497**	**$1,590,685**	**5.43%**	**7.10%**	**7.10%**	**$ 28,239**
For the Quarter Ended June 30, 2000	**$ 243**	**$ 1,476,283**	**$1,476,526**	**3.29%**	**6.97%**	**6.97%**	**$ 25,734**
For the Quarter Ended March 31, 2000	**$ 226**	**$ 1,448,148**	**$1,448,374**	**1.79%**	**6.80%**	**6.80%**	**$ 24,617**

The constant prepayment rate (or CPR) on our mortgage-backed securities for the year ended December 31, 2000 was 11%, 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, 2000, 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 for the years ended December 31, 2000, 1999 and 1998. Interest expense totaled of $92.9 million, $69.8 million and $75.7 million for the years ended December 31, 2000, 1999 and 1998. Our average cost of funds was 6.41% for the year ended December 31, 2000, 5.17% for the year ended December 31, 1999 and 5.57% for the year ended December 31, 1998. The cost of funds rate increased by 1.24% and the average borrowed funds increased by $99.8 million for the year ended December 31, 2000 when compared to the year ended December 31, 1999; consequently, interest expense increased by 33%. 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 equal to average one-month LIBOR for the year ended December 31, 2000, 0.08% below average 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, 2000, average one-month LIBOR, which was 6.41%, was 0.25% lower than average six-month LIBOR, which was 6.66%. 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, 2000, 1999 and 1998, the period ended December 31, 1997 and the four quarters in 2000.

Average Cost of Funds

(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 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 Year Ended December 31, 2000	**$1,449,999**	**$92,902**	**6.41 %**	**6.41%**	**6.66%**	**(0.25 %)**	**—**	**(0.25%)**
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, 2000	**$1,632,564**	**$27,377**	**6.71 %**	**6.65%**	**6.62%**	**0.03 %**	**0.06%**	**0.09%**
For the Quarter Ended September 30, 2000	**$1,477,112**	**$24,779**	**6.71 %**	**6.62%**	**6.84%**	**(0.22 %)**	**0.09%**	**(0.13%)**
For the Quarter Ended June 30, 2000	**$1,360,419**	**$21,453**	**6.30 %**	**6.46%**	**6.84%**	**(0.38 %)**	**(0.16%)**	**(0.54%)**
For the Quarter Ended March 31, 2000	**$1,329,900**	**$19,293**	**5.80 %**	**5.92%**	**6.32%**	**(0.40 %)**	**(0.12%)**	**(0.52%)**

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 $16.8 million for the year ended December 31, 2000, $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 decreased for the year ended December 31, 2000 because of higher funding costs for the year. The substantial increase in interest expense for the year ended December 31, 2000 was only partially offset by the increase in interest income. Our net interest income increased because of lower funding costs for the year for the year ended December 31, 1999, when compared to the year ended December 31, 1998. 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 0.61% for the year ended December 31, 2000 as compared to 0.98% for the year ended December 31, 1999. This 0.37% decrease in spread income is reflected in the $3.2 million decrease in net interest income. Our net interest spread 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 $5.7 million increase in net interest income. Net interest margin, which equals net interest income divided by average interest earning assets, was 1.02% for the year ended December 31, 2000, 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, 2000, 1999 and 1998, the period ended December 31, 1997, and the four quarters in 2000.

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, 2000	**$1,564,228**	**$109,739**	**$263**	**$109,750**	**7.02%**	**$1,449,999**	**$92,902**	**6.41%**	**$16,848**
For the Year Ended December 31, 1999	$ 1,461,033	$ 89,801	$221	$ 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, 2000	**$1,741,985**	**$ 31,154**	**$394**	**$ 31,160**	**7.16%**	**$1,632,564**	**$27,377**	**6.71%**	**$ 3,783**
For the Quarter Ended September 30, 2000	**$1,590,497**	**$ 28,237**	**$188**	**$ 28,239**	**7.10%**	**$1,447,112**	**$24,779**	**6.71%**	**$ 3,460**
For the Quarter Ended June 30, 2000	**$1,476,283**	**$ 25,732**	**$243**	**$ 25,734**	**6.97%**	**$1,360,419**	**$21,453**	**6.30%**	**$ 4,282**
For the Quarter Ended March 31, 2000	**$1,448,148**	**$ 24,616**	**$226**	**$ 24,617**	**6.80%**	**$1,329,900**	**$19,293**	**5.80%**	**$ 5,323**

Gains and Losses on Sales of Mortgage-Backed Securities

For the year ended December 31, 2000, we sold mortgage-backed securities with an aggregate historical amortized cost of $487.8 million for an aggregate gain of $2.0 million. For the year ended December 31, 1999, we sold mortgage-backed securities with an aggregate historical amortized cost of $122.1 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 increased substantially for the year ended December 31, 2000. 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

General and administrative expenses (“G&A”) were $2.3 million for the years ended December 31, 2000 and 1999. G&A expenses were $2.1 million for the year ended December 31, 1998. G&A expenses as a percentage of average assets was 0.14%, 0.15%, and 0.14% for the years ended December 31, 2000, 1999, and 1998 respectively. G&A expenses in total were materially unchanged for the three year period. The table below shows our total G&A expenses as compared to average assets and average equity for the years ended December 31, 2000, 1999 and 1998, the period ended December 31, 1997, and the four quarters in 2000.

GAAP G&A Expenses and Operating Expense Ratios

(dollars in thousands)	Total G&A Expenses	Total G&A Expenses/ Average Assets (annualized)	Total G&A Expenses/ Average Equity (annualized)
For the Year Ended December 31, 2000	**$2,286**	**0.14%**	**1.94%**
For the Year Ended December 31, 1999	$2,281	0.15%	1.94%
For the Year Ended December 31, 1998	$2,106	0.14%	1.60%
For the Period Ended December 31, 1997	$ 852	0.21%	1.61%
For the Quarter Ended December 31, 2000	**$ 670**	**0.14%**	**2.11%**
For the Quarter Ended September 30, 2000	**$ 527**	**0.13%**	**1.84%**
For the Quarter Ended June 30, 2000	**$ 507**	**0.15%**	**1.85%**
For the Quarter Ended March 31, 2000	**$ 582**	**0.16%**	**2.19%**

Net Income and Return on Average Equity

Our net income was $16.6 million for the year ended December 31, 2000, $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 14.1% for the year ended December 31, 2000, 15.4% for the year ended December 31, 1999, and 11.8% for the year ended December 31, 1998. The decrease in net income for the year ended December 2000, as compared to the year ended December 31, 1999, is a direct result of a decrease in spread income. As previously mentioned, the substantial increase in interest expense for the year ended December 31, 2000 was the primary reason that our earnings decrease. The Company was able to take advantage of appreciation in asset value. The gain on sale of securities increased by $1.6 million for the year ended December 31, 2000, as compared to the prior year. The increase in net income for the year ended December 31, 1999, as compared to the year ended December 31, 1998, is a direct result of an increase in spread income. The substantial decline in interest expense for the year ended December 31, 1999 was the primary reason that our earnings increased. The G&A expenses remained relatively constant during the three year period. 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, 2000, 1999, 1998, and 1997, and for the four quarters in 2000.

Components of Return on Average Equity

(Ratios for the Quarters Ended December 31, 2000, September 30, 2000, June 30, 2000, March 31, 2000 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, 2000	**14.31 %**	**1.72%**	**1.94%**	**14.09 %**
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, 2000	**11.90 %**	**3.09%**	**2.11%**	**12.88 %**
For the Quarter Ended September 30, 2000	**12.08 %**	**3.05%**	**1.84%**	**13.29 %**
For the Quarter Ended June 30, 2000	**15.61 %**	**0.24%**	**1.85%**	**14.00 %**
For the Quarter Ended March 31, 2000	**20.07 %**	**0.40%**	**2.19%**	**18.28 %**

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, 2000, approximate taxable income exceeded dividend declarations by $810,000, or $.05 per share, based on the number of shares of common stock outstanding at period end. The table below shows taxable income as compared to dividends paid for the years ended December 31, 2000, 1999 and 1998, the period ended December 31, 1997, and the four quarters in 2000.

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 Year Ended December 31, 2000	**$15,700**	**14,089,436**	**$1.11**	**$ 1.15**	**$16,333**	**104.0%**	**$ 810**
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, 2000	**$ 4,178**	**14,413,578**	**$0.29**	**$ 0.25**	**$ 3,631**	**86.9%**	**$ 810**
For the Quarter Ended September 30, 2000	**$ 3,373**	**14,238,680**	**$0.24**	**$ 0.25**	**$ 3,575**	**105.9%**	**$ 726**
For the Quarter Ended June 30, 2000	**$ 3,594**	**14,039,741**	**$0.25**	**$ 0.30**	**$ 4,262**	**119.5%**	**$1159**
For the Quarter Ended March 31, 2000	**$ 4,555**	**13,660,539**	**$0.33**	**$ 0.35**	**$ 4,864**	**107.4%**	**$1,404**

Financial Condition

Mortgage-Backed Securities

All of our mortgage-backed securities at December 31, 2000, 1999, and 1998 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, 2000, 1999, and 1998 we had on our balance sheet a total of $989,000, $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 $24.3 million, $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 $168.5 million for the year ended December 31, 2000, $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, 2000, 1999, 1998 and 1997, September 30, 2000, June 30, 2000, and March 31, 2000.

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 Average Yield
At December 31, 2000	**$1,967,967**	**$23,296**	**$1,991,263**	**101.18%**	**$1,978,219**	**100.52%**	**7.09%**
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, 2000	**$1,669,997**	**$21,878**	**$1,691,875**	**101.31%**	**$1,664,136**	**99.65%**	**7.23%**
At June 30, 2000	**$1,464,968**	**$20,893**	**$1,485,861**	**101.43%**	**$1,450,853**	**99.04%**	**7.32%**
At March 31, 2000	**$1,448,875**	**$21,826**	**$1,470,701**	**101.51%**	**$1,436,389**	**99.14%**	**7.02%**

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, 2000	**$1,454,356**	**7.61%**	**5.76%**	**1.85%**	**15 months**	**11.47%**	**7.24%**	**73.90%**
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, 2000	**$1,203,268**	**7.64%**	**5.93%**	**1.71%**	**13 months**	**11.01%**	**7.36%**	**72.05%**
At June 30, 2000	**$ 986,046**	**7.53%**	**6.02%**	**1.51%**	**9 months**	**10.41%**	**7.46%**	**67.31%**
At March 31, 2000	**$ 957,419**	**7.18%**	**5.63%**	**1.55%**	**10 months**	**10.59%**	**7.06%**	**66.08%**

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, 2000	**$513,611**	**6.62%**	**6.68%**	**26.10%**
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 September 30, 2000	**$466,729**	**6.58%**	**6.92%**	**27.95%**
At June 30, 2000	**$478,922**	**6.58%**	**7.05%**	**32.69%**
At March 31, 2000	**$491,456**	**6.58%**	**7.04%**	**33.92%**

At December 31, 2000, 1999, and 2000 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, 2000	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.**	**23 mo.**	**20 mo.**	**40 mo.**
Weighted Average Annual Period Cap	**None**	**1.00%**	**1.98%**	**2.00%**	**1.76%**
Weighted Average Lifetime Cap at December 31, 2000	**9.11%**	**11.37%**	**12.61%**	**13.24%**	**12.42%**
Mortgage Principal Value as Percentage of Mortgage-Backed Securities at December 31, 2000	**24.08%**	**1.21%**	**44.52%**	**2.97%**	**1.12%**

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, 2000, 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, 2000, 1999 and 1998, the term to maturity of our borrowings ranged from one day six months, with a weighted average original term to maturity of 56 days at December 31, 2000, 50 days at December 31, 1999, and 49 days at December 31, 1998. At December 31, 2000, the weighted average cost of funds for all of our borrowings was 6.55% and the weighted average term to next rate adjustment was 29 days. 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, 2000 was $135.6 million, or $9.34 per share. If we had used historical amortized cost accounting, our equity base at December 31, 2000 would have been $148.6 million, or $10.24 per share. 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, 1998 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 years ended December 31, 2000 and 1999, the Company raised additional capital in the amount of $7.4 million and $8.2 million through its direct purchase program. The Company completed a secondary offering of 9.8 million shares of common stock on January 29, 2001. The aggregate net proceeds to the Company (after deducting estimated expenses) are estimated to be $87.4 million. The underwriters exercised an option to purchase 1.4 million additional shares of common stock to cover over-allotments on February 22, 2001, providing the company with net proceeds of $12.1 million.

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,	**2000**	1999	1998	1997
Unrealized Gain	**$ 3,020**	$ 1,531	$ 3,302	$ 3,253
Unrealized Loss	**(16,064)**	(39,100)	(9,706)	(1,229)
Net Unrealized Gain (Loss)	**$(13,044)**	$(37,569)	$ (6,404)	$ 2,024
Net Unrealized Gain (Loss) as % of Mortgage-Backed Securities Principal Value	**(0.66%)**	(2.59%)	(0.43%)	0.18%
Net Unrealized Gain (Loss) as % of Mortgage-Backed Securities Amortized Cost	**(0.66%)**	(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 $13.0 million, or 0.66% of the amortized cost of our mortgage-backed securities at December 31, 2000. "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 0.42% 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, 2000, 1999, 1998, and 1997, and September 30, 2000, June 30, 2000 and March 31, 2000. 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, 2000	**$148,686**	**$(13,044)**	**$135,642**	**$10.24**	**$ 9.34**
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, 2000	**$146,446**	**$(27,739)**	**$118,707**	**$10.24**	**$ 8.30**
At June 30, 2000	**$145,448**	**$(35,008)**	**$110,440**	**$10.24**	**$ 7.77**
At March 31, 2000	**$143,279**	**$(34,313)**	**$108,966**	**$10.31**	**$ 7.84**

Leverage

Our debt-to-GAAP reported equity ratio at December 31, 2000, 1999, and 1998 was 12.0:1, 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 99.9% of our total assets at December 31, 2000 and 1999 and 99.5% at December 31, 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 98.1%, 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, 2000, 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, 2000, 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 securitites 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, 2000, 1999 and 1998 we were in compliance with this requirement.

Statements of Financial Condition

December 31,	2000	1999
Assets		
Cash and Cash Equivalents	**$ 113,061**	$ 71,918
Mortgage-Backed Securities—At fair value	**1,978,219,376**	1,437,792,631
Receivable for Mortgage-Backed Securities Sold	**44,933,631**	46,402,360
Accrued Interest Receivable	**11,502,482**	6,857,683
Other Assets	**260,238**	197,896
Total Assets	**$2,035,028,788**	$1,491,322,488
Liabilities and Stockholders' Equity		
Liabilities:		
Repurchase agreements	**$1,628,359,000**	$1,338,295,750
Payable for Mortgage-Backed Securities purchased	**258,798,138**	38,154,012
Accrued interest payable	**8,314,414**	6,682,687
Dividends payable	**3,630,745**	4,753,461
Accounts payable	**284,105**	164,100
Total liabilities	**1,899,386,402**	1,388,050,010
Stockholders' Equity:		
Common stock: par value $.01 per share; 100,000,000 authorized, 14,522,978 and 13,581,316 shares issued and outstanding, respectively	**145,230**	135,813
Additional paid-in capital	**147,844,861**	140,262,657
Accumulated other comprehensive loss	**(13,044,259)**	(37,568,510)
Retained earnings	**696,554**	442,518
Total stockholders' equity	**135,642,386**	103,272,478
Total Liabilities and Stockholders' Equity	**$2,035,028,788**	$1,491,322,488

See notes to financial statements.

Statements of Operations

Years Ended December 31,	2000	1999
Interest Income:		
Mortgage-Backed Securities	**$109,739,302**	$ 89,801,353
Other interest income	**11,104**	10,641
Total interest income	**109,750,406**	89,811,994
Interest Expense:		
Repurchase agreements	**92,901,697**	69,846,206
Net Interest Income	**16,848,709**	19,965,788
Gain on sale of Mortgage-Backed Securities	**2,025,205**	454,782
General and Administrative Expenses	**2,286,626**	2,281,290
Net Income	**16,587,288**	18,139,280
Other Comprehensive Gain (Loss):		
Unrealized gain (loss) on available-for-sale securities	**26,549,456**	(30,709,453)
Less reclassification adjustment for gains included in net income	**(2,025,205)**	(454,782)
Other comprehensive gain (loss)	**24,524,251**	(31,164,235)
Comprehensive Income	**$ 41,111,539**	$(13,024,955)
Net Income Per Share:		
Basic	**$ 1.18**	$ 1.41
Diluted	**$ 1.15**	$ 1.35
Average Number of Shares Outstanding:		
Basic	**14,089,436**	12,889,510
Diluted	**14,377,459**	13,454,007

See notes to financial statements.

Statement of Stockholders' Equity

	Common Stock Par Value	Additional Paid-in Capital	Comprehensive Income	Retained Earnings	Other Comprehensive Income	Total
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, $1.39 per average share	—	—	—	(17,977,754)	—	(17,977,754)
Balance, December 31, 1999	**135,813**	**140,262,657**	**—**	**442,518**	**(37,568,510)**	**103,272,478**
Net income	**—**	**—**	**$ 16,587,288**	**16,587,288**	**—**	**—**
Other comprehensive income:						
Unrealized net gains on securities, net of reclassification adjustment	**—**	**—**	**24,524,251**	**—**	**24,524,251**	**—**
Comprehensive income	**—**		**$ 41,111,539**	**—**	**—**	**41,111,539**
Exercise of stock options	**475**	**198,287**	**—**	**—**	**—**	**198,762**
Proceeds from direct purchase	**8,942**	**7,383,917**	**—**	**—**	**—**	**7,392,859**
Dividends declared for the year ended December 31, 2000, $1.15 per average share	**—**	**—**		**(16,333,252)**	**—**	**(16,333,252)**
Balance, December 31, 2000	**$ 145,230**	**$ 147,844,861**	**—**	**$ 696,554**	**$ (13,044,259)**	**$135,642,386**

See notes to financial statements.

Statement of Cash Flows

Years ended December 31,	2000	1999
Cash Flows from Operating Activities:		
Net income	**$ 16,587,288**	$ 18,139,280
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of mortgage premiums and discounts, net	**2,646,753**	6,103,239
Gain on sale of Mortgage-Backed Securities	**(2,025,205)**	(454,782)
Increase in accrued interest receivable	**(4,644,799)**	(98,310)
Decrease (increase) in other assets	**(62,342)**	36,988
Increase in accrued interest payable	**1,631,727**	1,630,061
Increase in accounts payable	**120,005**	24,864
Net cash provided by operating activities	**14,253,427**	25,381,340
Cash Flows from Investing Activities:		
Purchase of Mortgage-Backed Securities	**(952,737,643)**	(559,695,956)
Proceeds from sale of Mortgage-Backed Securities	**489,809,698**	122,552,293
Principal payments on Mortgage-Backed Securities	**168,516,759**	362,657,549
Net cash used in investing activities	**(294,411,186)**	(74,486,114)
Cash Flows from Financing Activities:		
Proceeds from repurchase agreements	**14,196,953,221**	11,202,660,000
Principal payments on repurchase agreements	**(13,906,889,971)**	(11,144,874,250)
Proceeds from exercise of stock options	**198,762**	233,276
Proceeds from direct equity offering	**7,392,859**	8,170,602
Dividends paid	**(17,455,969)**	(17,081,956)
Net cash provided by financing activities	**280,198,902**	49,107,672
Net Increase in Cash and Cash Equvalents	**41,143**	2,898
Cash and Cash Equvalents, Beginning of Year	**71,918**	69,020
Cash and Cash Equvalents, End of Year	**$ 113,061**	$ 71,918
Supplemental Disclosure of Cash Flow Information:		
Interest paid	**$ 91,269,970**	$ 68,216,145
Noncash Financing Activities:		
Net change in unrealized loss on available-for-sale securities	**$ 24,524,251**	$ (31,164,235)
Dividends declared, not yet paid	**$ 3,630,745**	$ 4,753,461

See notes to financial statements

Notes to Financial Statements

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, 2000 and 1999.

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, 2000 and 1999, 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, 2000 and 1999, 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, 2000, 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	**$1,029,045,622**	**$ 853,777,836**	**$85,143,889**	**$1,967,967,347**
Unamortized discount	**(221,944)**	**(767,116)**	**—**	**(989,060)**
Unamortized premium	**11,203,043**	**11,569,619**	**1,512,687**	**24,285,349**
Amortized cost	**1,040,026,721**	**864,580,339**	**86,656,576**	**1,991,263,636**
Gross unrealized gains	**2,220,525**	**798,984**	**—**	**3,019,509**
Gross unrealized losses	**(5,426,076)**	**(9,503,333)**	**(1,134,360)**	**(16,063,769)**
Estimated fair value	**$1,036,821,170**	**$ 855,875,990**	**$85,522,216**	**$1,978,219,376**

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 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 11.5% and 10.6% at December 31, 2000 and 1999.

During the year ended December 31, 2000, the Company realized $2,025,205 in gains from sales of Mortgage-Backed Securities. 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.

3. Repurchase Agreements

The Company had outstanding $1,628,359,000 and $1,338,295,750 of repurchase agreements with a weighted average borrowing rate of 6.55% and 5.26% and a weighted average remaining maturity of 29 days and 20 days as of December 31, 2000 and 1999, respectively. At December 31, 2000 and 1999, Mortgage-Backed Securities actually pledged had an estimated fair value of $1,668,161,860 and $1,376,684,559, respectively.

At December 31, 2000 and 1999, the repurchase agreements had the following remaining maturities:

	2000	1999
Within 30 days	**$1,135,886,000**	$1,197,416,250
30 to 59 days	**63,810,000**	25,767,000
60 to 89 days	**48,845,000**	—
90 to 119 days	**—**	115,112,500
Over 120 days	**79,818,000**	—
	$1,628,359,000	$1,338,295,750

4. Common Stock

During the year ended December 31, 2000, 47,499 options were exercised at $198,762. Also, 894,163 shares were purchased in direct offerings, totaling $7,392,859. 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 Company's year ending December 31, 2000, the Company declared dividends to shareholders totaling $16,333,252, or $1.15 per weighted average share, of which $12,702,507 was paid during the year and $3,630,745 was paid on January 30, 2001.

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.

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, 2000, the reconciliation is as follows:

Year Ended December 31, 2000	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Net income	**$ 16,587,288**		
Basic EPS	**16,587,288**	**14,089,436**	**$1.18**
Effect of dilutive securities:			
Dilutive stock options	**—**	**288,023**	
Diluted EPS	**$ 16,587,288**	**14,377,459**	**$1.15**

Options to purchase 334,881 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 $8.51. Options to purchase 568,926 shares of stock were outstanding and not considered dilutive. The exercise price (between $8.63 and $11.25) was greater than the average stock price for the year of $8.51.

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

Year 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.

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:

December 31,	**2000**	1999
Net earnings—as reported	**$16,587,288**	$18,139,280
Net earnings—pro forma	**16,468,550**	18,010,908
Earnings per share—as reported	**$ 1.18**	$ 1.41
Earnings per share—pro forma	**$ 1.17**	$ 1.40

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, 2000: dividend yield of 12.69%; expected volatility of 28.33%; risk-free interest rate of 5.16%; and the weighted average expected lives of nine years. For 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.

Information regarding options at December 31, 2000 is as follows:

	Shares	Weighted Average Exercise Price
Outstanding, January 1, 2000	**844,056**	**$8.03**
Granted (36,500 ISOs, 86,000 NQSOs)	**122,500**	**8.00**
Exercised	**(15,250)**	**9.17**
Expired	**(47,499)**	**4.18**
Outstanding, December 31, 2000	**903,807**	
Weighted average fair value of options granted during the year (per share)	**$ 0.43**	

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

	Shares	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	

The following table summarizes information about stock options outstanding at December 31, 2000:

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life (Yrs.)
$ 4.00	**65,128**	**1**
7.94	**116,250**	**10**
8.13	**269,753**	**8**
8.63	**300,000**	**9**
8.94	**6,250**	**2**
9.06	**6,250**	**3**
10.00	**131,500**	**1**
10.75	**6,250**	**2**
11.25	**2,426**	**2**
	903,807	**6.9**

At December 31, 2000 and 1999, 341,013 and 162,389 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, 2000 and 1999 held securities classified as available-for-sale. At December 31, 2000, the net unrealized losses totaled $13,044,259 and at December 31, 1999, the net unrealized losses totaled $37,568,510.

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:

2001	$ 97,868
2002	100,515
2003	110,261
2004	113,279
2005	116,388
2006	119,590
2007	122,888
2008	
Total remaining lease payments	$780,789

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. Subsequent Event

The Company completed a secondary offerings of 9,800,000 shares of company common stock on January 29, 2001. The aggregate net proceeds to the company (after deducting estimated expenses) are estimated to be $87.4 million. The underwriters exercised an option to purchase 1,350,000 additional shares of common stock to cover over-allotments on Feruary 22, 2001, providing the Company with net proceeds of $12.1 million.

11. Summarized Quarterly Results (Unaudited)

The following is a presentation of the quarterly results of operations for the year ended December 31, 2000.

Quarters Ending	March 31, 2000	June 30, 2000	September 30, 2000	December 31, 2000
Interest income from Mortgage-Backed Securities and cash	**$24,616,782**	**$25,734,520**	**$28,239,125**	**$31,159,979**
Interest expense on repurchase agreements	**19,292,954**	**21,453,016**	**24,779,096**	**27,376,631**
Net interest income	**5,323,828**	**4,281,504**	**3,460,029**	**3,783,348**
Gain on sale of Mortgage-Backed Securities	**106,853**	**64,774**	**872,949**	**980,629**
General and administrative expenses	**582,319**	**507,322**	**526,881**	**670,104**
Net income	**$ 4,848,362**	**$ 3,838,956**	**$ 3,806,097**	**$ 4,093,873**
Net income per share:				
Basic	**$ 0.35**	**$ 0.27**	**$ 0.27**	**$ 0.28**
Dilutive	**$ 0.35**	**$ 0.26**	**$ 0.26**	**$ 0.28**
Average number of shares outstanding:				
Basic	**13,660,539**	**14,039,741**	**14,238,680**	**14,413,578**
Dilutive	**13,971,112**	**14,631,940**	**14,529,142**	**14,702,189**

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	513,600	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

Independent Auditors' Report

To the Stockholders of
Annaly Mortgage Management, Inc.

We have audited the accompanying statements of financial condition of Annaly Mortgage Management, Inc. (the "Company") as of December 31, 2000 and 1999, and the related statements of operations, stockholders' equity and cash flows for the years then ended. 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 auditing standards generally accepted in the United States of America. 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, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Deloitte & Touche, L.L.P.
New York, New York
February 5, 2001

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 table sets 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 composite tape and the cash dividends declared per share of our common stock.

Stock Prices	High	Low	Close
First Quarter ended March 31, 2000	$ 9.25	$ 7.19	$ 8.88
Second Quarter ended June 30, 2000	$ 9.38	$ 8.19	$ 8.88
Third Quarter ended September 30, 2000	$ 9.50	$ 8.06	$ 9.13
Fourth Quarter ended December 31, 2000	$ 9.50	$ 7.88	$ 9.06
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

	Cash Dividends Declared Per Share
First Quarter ended March 31, 2000	$ 0.35
Second Quarter ended June 30, 2000	$ 0.30
Third Quarter ended September 30, 2000	$ 0.25
Fourth Quarter ended December 31, 2000	$ 0.25
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

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 Information

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
Phoenix Investment Partners, Ltd.

Corporate Headquarters

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Washington, D.C. 20006-1208

Auditors

Deloitte & Touche L.L.P.
Two World Financial Center
New York, New York 10281-1434

Stock Transfer Agent

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

Mellon Investor Services, L.L.C
PO Box 3315
South Hackensack, New Jersey
07606-1915
(800) 370-1163
www.mellon-investor.com

Stock Exchange Listing

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

NLY Listed NYSE

Annual Meeting

The Annual Meeting of Stockholders will be held Thursday, May 17th, 2001 at 10 a.m. at:
The Union League Club
38 East 37th Street
New York, New York
Grant Room, 3M

Shareholder Communications

Copies of the Company's 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

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