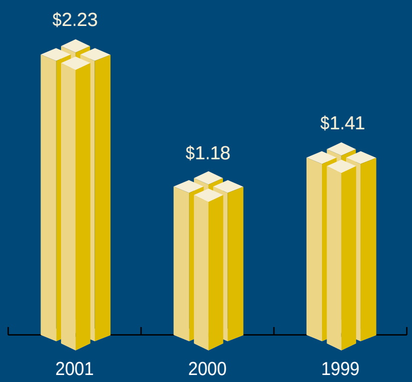
proceed without fear

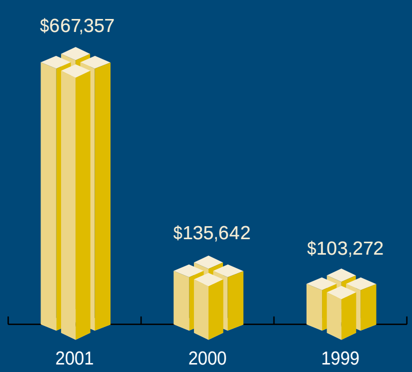
Annaly Mortgage Management, Inc.

ANNUAL REPORT 2001

Earnings Per Share



Stockholders' Equity
(dollars in thousands)



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 the 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.

Earnings Per Share increased by

89%

Stockholders' Equity increased by

392%

To Our Fellow Shareholders:

In last year's letter, I outlined the path of the Company against the background of my family history. The closing sentence in the letter read, "The best is yet to come." In fact, these words were an understatement. In 2001, the Company grew in dramatic leaps and bounds. Our shareholder base grew from 14.5 million shares to 59.8 million shares. We tapped the capital markets relentlessly in accretive secondary transactions, increased the Company's market capitalization from $130 million to $957 million at year end, became a member of the Russell 2000 Index and grew earnings per share by 89% from 2000's results. But this letter is not about the Company's growth, the financial markets or our plans for next year. It is a letter of reflection and a tale of two brothers.

As a result of our successful secondary transactions, we earned the right to celebrate by "ringing the bell" at the open of the New York Stock Exchange on February 22nd. This was a seminal moment for the Company and its management. Because of the success of the deal, the cyclical return of the capital markets to choose value stocks and yield over growth multiples and after four years of exceptional results against the most challenging market environment of the past 100 years, it was a moment of triumph. As I stood on the balcony that morning, I was surrounded by my immediate family, and my second family, the management of your Company. I consider them among my closest and best colleagues and friends, hand picked over the years to form the top performing management team in the sector. I don't understand what power in the universe has graced me with the privilege of spending my workdays with them. I am grateful for the opportunity.

In last year's letter, I discussed how my parents immigrated to this country and brought my older brother over from Dublin, Ireland to start their lives in America. Our family crest and its motto "Prodesse non Nocere" are the trademarks of the Company. Like many Northeastern families, my brothers and sis-

ters cover a wide range of professions and their networks of friends and associates reflect the neighborhood structure of the region. My older brother, Tom stood on the very same balcony at the NYSE later this year, but for a very different reason. You see, Tom is a Chief of Police for the Port Authority of New York and New Jersey. He stood with his "extended family" to commemorate the lives of those lost in the attacks on the World Trade Center, including men and women he worked with every day of his professional life. These people put their lives on the line for others. There is no greater tribute to their legacy.

As I write this letter, I reflect on the losses and gains inherent in our lives, and on the Company's motto, Prodesse non Nocere. In our third secondary offering of the year, we priced the deal three days after the NYSE resumed operations following the attacks. In the ensuing chaos of the markets, we held the underwriters and investors together and were the first to complete a transaction after the tragedy, validating the liquidity of the markets and the strength of our Company. Other deals followed. A Swiss firm, a Dutch firm, a Canadian firm and an American firm whose offices overlook the Pentagon in Arlington, Virginia underwrote the September deal. There is no stronger statement of the phrase, world trade center. It is not represented by buildings, but by the people who inhabit those buildings and the commerce they create.

The Company's Latin motto, Prodesse non Nocere is literally translated as "to do good, not harm". Its figurative translation is the one we have always used in our lives: "Proceed without fear". In honor and memory of those who have gone before us, it is what we intend to do.

Michael A.J. Farrell
March 17, 2002

Annaly has

Seamless Execution

Powerful Earnings Model

High Quality Assets

Transparency

Annaly's senior management is experienced in Wall Street trading, management and operations, 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 three secondary offerings in 2001, Annaly has consistently generated double-digit returns for its shareholders. Annaly Mortgage Management's success and future growth prospects are based on the proven ability of its strong and seasoned management team to deliver excellent results in volatile markets.

"We identified the market trend early in the cycle, successfully communicated it to investors and then seamlessly executed the strategic pieces to the benefit of all shareholders. This was all accomplished against the background of extremely volatile debt and equity markets."

Michael Farrell
Chairman,
President & CEO

"The Power of our earnings model has been proven time and again over the past year. The Strength of our team has been proven over the past five years and will continue to be the greatest asset our shareholders own."

Wellington Denahan
Vice Chairman and
Chief Portfolio Manager

"With the three secondary offerings during the year, we were able to effectively deploy the capital and provide exceptional returns to existing and new shareholders. These returns were achieved while maintaining our core business strategy of acquiring only high quality assets."

Kathryn Fagan
Chief Financial Officer
& Treasurer

"We are committed to a strategy focused on discipline, attention to detail, and transparency. Investors have recognized that commitment as evidenced in the growth achieved over the last year and the price appreciation in the stock. In the current market environment, I believe, they will come to value it even more."

Jennifer Stephens
Secretary and Portfolio Manager

Financial Highlights

(dollars in thousands, except for per share data)	For the Year Ended December 31, 2001	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	366	365	365	317
Interest income	$ 263,058	$ 109,750	$ 89,812	$ 89,986	$ 24,713
Interest expense	168,055	92,902	69,846	75,735	19,677
Net interest income	$ 95,003	$ 16,848	$ 19,966	$ 14,251	$ 5,036
Gain on sale of mortgage-backed securities	4,586	2,025	454	3,344	735
General and administrative expenses (G&A expense)	7,311	2,286	2,281	2,106	852
Net income	$ 92,278	$ 16,587	$ 18,139	$ 15,489	$ 4,919
Basic net income per average share	$ 2.23	$ 1.18	$ 1.41	$ 1.22	$ 0.83
Diluted net income per average share	$ 2.21	$ 1.15	$ 1.35	$ 1.19	$ 0.80
Dividends declared per share	$ 1.75	$ 1.15	$ 1.38	$ 1.21	$ 0.79
Balance Sheet Data:					
Mortgage-backed securities, net	$ 7,575,379	$ 1,978,219	$ 1,437,793	$ 1,520,289	$ 1,161,779
Total assets	7,717,314	2,035,029	1,491,322	1,527,352	1,167,740
Repurchase agreements	6,367,710	1,628,359	1,338,296	1,280,510	918,869
Total liabilities	7,049,957	1,899,386	1,388,050	1,401,481	1,032,654
Stockholders' equity	667,357	135,642	103,272	125,871	135,086
Number of common shares outstanding	59,826,975	14,522,978	13,581,316	12,648,424	12,713,900
Other Data:					
Average total assets	$ 5,082,852	$ 1,652,459	$ 1,473,765	$ 1,499,875	$ 476,855
Average earning assets	4,682,780	1,564,491	1,461,254	1,461,791	448,306
Average borrowings	4,388,900	1,449,999	1,350,230	1,360,040	404,140
Average equity	437,376	117,727	117,685	131,265	61,096
Yield on interest-earning assets	5.62%	7.02%	6.15%	6.16%	6.34%
Cost of funds on interest-bearing liabilities	3.83%	6.41%	5.17%	5.57%	5.61%
Interest rate spread	1.79%	0.61%	0.98%	0.59%	0.73%
Annualized Financial Ratios:					
Net interest margin (net interest income/average total assets)	1.87%	1.02%	1.35%	0.95%	1.22%
G&A expense as a percentage of average assets	0.14%	0.14%	0.15%	0.14%	0.21%
G&A expense as a percentage of average equity	1.67%	1.94%	1.94%	1.60%	1.61%
Return on average assets	1.82%	1.00%	1.23%	1.03%	1.19%
Return on average equity	21.10%	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 Operations

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.

Result of Operations

Net Income Summary

For the year ended December 31, 2001 our GAAP net income was $92.3 million or $2.23 basic earnings per average share, as compared to $16.6 million or $1.18 basic earnings per average share for the year ended December 31, 2000. For the year ended December 31, 1999 our GAAP net income was $18.1 million, or $1.41 basic earnings per average share. The increase in 2001 GAAP net income is attributable to our acquisition of additional mortgage-backed securities using proceeds raised in three public offerings in 2001 and the increase in the interest rate spread on our interest-earning assets and our interest-bearing liabilities. 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 41,439,631 for the year ended December 31, 2001, 14,089,436 for the year ended December 31, 2000, and 12,889,510 for the year ended December 31, 1999. Dividends per share for the year ended December 31, 2001 was $1.75, or an aggregate of $88.4 million. Dividends per share for the year ended December 31, 2000 was $1.15 per share, or $16.3 million in total. Dividends per share for the year ended December 31, 1999 was $1.38 per share, or $18.0 million in total. Our return on average equity was 21.10% for the year ended December 31, 2001, 14.09% for the year ended December 31, 2000, and 15.41% for the year ended December 31, 1999. The increase in return on equity in 2001 is primarily due to the favorable interest rate environment. The table below presents the net income summary for the years ended December 31, 2001, 2000, 1999, 1998, and the period ended December 31, 1997.

Net Income Summary

(dollars in thousands, except for per share data)	Year ended December 31, 2001	Year Ended December 31, 2000	Year Ended December 31, 1999	Year Ended December 31, 1998	Period Ended December 31, 1997
Interest Income	$ 263,058	$ 109,750	$ 89,812	$ 89,986	$ 24,713
Interest Expense	168,055	92,902	69,846	75,735	19,677
Net Interest Income	$ 95,003	$ 16,802	$ 19,966	$ 14,251	$ 5,036
Gain on Sale of Mortgage-Backed Securities	4,586	2,025	454	3,344	735
General and Administrative Expenses	7,311	2,286	2,281	2,106	852
Net Income	$ 92,278	$ 16,587	$ 18,139	$ 15,489	$ 4,919
Average Number of Basic Shares Outstanding	41,439,631	14,089,436	12,889,510	12,709,116	5,952,126
Average Number of Diluted Shares Outstanding	41,857,498	14,377,459	13,454,007	13,020,648	6,300,623
Basic Net Income Per Share	$ 2.23	$ 1.18	$ 1.41	$ 1.22	$ 0.83
Diluted Net Income Per Share	$ 2.21	$ 1.15	$ 1.35	$ 1.19	$ 0.80
Average Total Assets	$ 5,082,852	$ 1,652,459	$ 1,473,765	$ 1,499,875	$ 476,855
Average Equity	437,376	117,727	117,685	131,265	61,096
Annualized Return on Average Assets	1.82%	1.00%	1.23%	1.03%	1.19%
Annualized Return on Average Equity	21.10%	14.09%	15.41%	11.80%	9.27%

Interest Income and Average Earning Asset Yield

We had average earning assets of $4.7 billion for the year ended December 31, 2001. 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 the year ended December 31, 1999. Our primary source of income for the years ended December 31 2001, 2000, and 1999 was interest income. A portion of our income was generated by gains on the sales of our mortgage-backed securities. Our interest income was $263.1 million for the year ended December 31, 2001, $109.8 million for the year ended December 31, 2000, and $89.8 million for the year ended December 31, 1999. Our yield on average earning assets was 5.62%, 7.02%, and 6.15% for the same respective periods. Our yield on average earning assets decreased by 1.40% and our average earning asset balance increased by $3.1 billion for the year ended December 31, 2001, when compared to the prior year. Due to the substantial increase in the asset base resulting from the inflow of capital during the year ended December 31, 2001, interest income increased by $153.3 million. Our yield on average earning assets increased by 0.87% and our average earning asset balance increased by $103.2 million for the year ended December 31, 2000 as compared to the year ended December 31, 1999. This equates to a $20.0 million increase in interest income. 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, 2001, 2000, 1999 and 1998, and the period ended December 31, 1997, and the four quarters in 2001.

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, 2001	$ 2	$4,682,778	$4,682,780	3.25%	5.62%	5.62%	$263,058
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, 2001	$ 2	$6,708,928	$6,708,930	1.56%	4.77%	4.77%	$ 80,060
For the Quarter Ended September 30, 2001	$ 2	$5,263,231	$5,263,233	2.77%	5.76%	5.76%	$ 75,774
For the Quarter Ended June 30, 2001	$ 2	$4,256,864	$4,256,866	3.72%	6.09%	6.09%	$ 64,790
For the Quarter Ended March 31, 2001	$ 2	$2,502,088	$2,502,090	4.93%	6.78%	6.78%	$ 42,434

Ratios for the period ended December 31, 1997 and the four quarters in 2001 have been annualized.

The constant prepayment rate (or CPR) on our mortgage-backed securities for the year ended December 31, 2001 was 26%, for the year ended December 31, 2000 was 11%, and for the year ended December 31, 1999 was 18%. 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, 2001, 2000, and 1999 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

Our largest expense is the cost of borrowed funds. We had average borrowed funds of $4.4 billion for the year ended December 31, 2001, $1.4 billion for the year ended December 31, 2000, and $1.4 billion for the year ended December 31,1999. Interest expense totaled $168.1 million, $92.9 million, and $69.8 million for the years ended December 31, 2001, 2000, and 1999, respectively. Our average cost of funds was 3.83% for the year ended December 31, 2001, 6.41% for the year ended December 31, 2000, and 5.17% for the year ended December 31, 1999. The cost of funds rate decreased by 2.58% and the average borrowed funds increased by $3.0 billion for the year ended December 31, 2001. Interest expense for the year ended December 31, 2001 increased $75.2 million. We increased our asset base by raising approximately $474.2 million of additional capital in 2001. As a result, we increased the repurchase agreements we are party to. Consequently, the increased interest expense for the year is the result of our growth. 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. As a result of the increased funding cost and the average balance, interest expense increased by $23.1 million in 2000.

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. During the year ended December 31, 2001, we entered into three-year repurchase agreements. Our average cost of funds was 0.05% less than average one-month LIBOR for the year ended December 31, 2001, and 0.10% greater than to average six-month LIBOR Our average cost of funds was equal to average one-month LIBOR for the year ended December 31, 2000, and 0.25% less than average six-month LIBOR. Our cost of funds was 0.08% below average one-month LIBOR for the year ended December 31, 1999, and 0.36% less than average six-month LIBOR. During the year ended December 31, 2001, average one-month LIBOR, which was 3.88%, was 0.15% greater than average six-month LIBOR, which was 3.73%. 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%. 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, 2001, 2000, 1999, 1998, the period ended December 31, 1997 and the four quarters in 2001.

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, 2001	$4,388,900	$168,055	3.83%	3.88%	3.73%	0.15%	(0.05%)	0.10%
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, 2001	$6,166,998	$ 40,698	2.64%	2.20%	2.16%	0.04%	0.44%	0.48%
For the Quarter Ended September 30, 2001	$4,997,922	$ 48,620	3.89%	3.55%	3.47%	0.08%	0.34%	0.42%
For the Quarter Ended June 30, 2001	$4,035,022	$ 45,284	4.49%	4.27%	4.12%	0.15%	0.22%	0.37%
For the Quarter Ended March 31, 2001	$2,355,658	$ 33,453	5.68%	5.51%	5.18%	0.33%	0.17%	0.50%

Ratios for the period ended December 31, 1997 and the four quarters in 2001 have been annualized.

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 $95.0 million for the year ended December 31, 2001, $16.8 million for the year ended December 31, 2000, and $20.0 million for the year ended December 31, 1999. Our net interest income increased by $78.2 million for the year ended December 31, 2001 over the prior year. The increase in our balance sheet which resulted from our raising additional capital in 2001, along with the 1.18% increase in the interest rate spread, caused the significant increase in the net interest income for the year. 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 spread, which equals the yield on our average assets for the period less the average cost of funds for the period, was 1.79% for the year ended December 31, 2001, which is a 1.18% increase over the prior year. The net interest spread for the year ended December 31, 2000 was 0.61%, 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. Net interest margin, which equals net interest income divided by average interest earning assets, was 1.87% for the year ended December 31, 2001, 1.02% for the year ended December 31, 2000, and 1.35% for the year ended December 31, 1999. 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, 2001, 2000, 1999, 1998 and the period ended December 31, 1997, and the four quarters in 2001.

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, 2001	$4,682,778	$263,058	$ 2	$263,058	5.62%	$4,388,900	$168,055	3.83%	$95,003
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, 2001	$6,708,928	$ 80,060	$ 2	$ 80,060	4.77%	$6,166,998	$ 40,698	2.64%	$39,361
For the Quarter Ended September 30, 2001	$5,263,231	$ 75,774	$ 2	$ 75,774	5.76%	$4,997,922	$ 48,620	3.89%	$27,154
For the Quarter Ended June 30, 2001	$4,256,864	$ 64,790	$ 2	$ 64,790	6.09%	$4,035,022	$ 45,284	4.49%	$19,506
For the Quarter Ended March 31, 2001	$2,502,088	$ 42,434	$ 2	$ 42,434	6.78%	$2,355,658	$ 33,453	5.68%	$ 8,981

Ratios for the period ended December 31, 1997 and the four quarters in 2001 have been annualized.

Gains and Losses on Sales of Mortgage-Backed Securities

For the year ended December 31, 2001, we sold mortgage-backed securities with an aggregate historical amortized cost of $1.2 billion for an aggregate gain of $4.6 million. 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. The gain on sale of assets for the year ended December 31, 2001 increased by $2.6 million over the prior year. Even though the gain for the year 2001 increased over the prior year, as a percentage of total income it declined. Our gain on the sale of assets increased substantially for the year ended December 31, 2000, when compared to the year ended December 31, 1999. 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. Under our capital investment policy, however, up to 25% of our securities could be rated “BBB” or better or if unrated, securities we deem to be of a quality “BBB” or better.

General and Administrative Expenses

General and administrative expenses (“G&A”) were $7.3 million for the year ended December 31, 2001, $2.3 million for the year ended December 31, 2000, and $2.3 million for the year ended December 31, 1999. G&A expenses as a percentage of average assets was 0.14%, 0.14%, and 0.15% for the years ended December 31, 2001, 2000, and 1999, respectively. G&A expense has increased proportionately with our increased capital base. Increases in salaries were the primary reason for the overall increase in G&A. G&A expenses in total were materially unchanged for the years ended December 31, 2000 and 1999. The table below shows our total G&A expenses as compared to average assets and average equity for the years ended December 31, 2001, 2000, 1999, 1998, the period ended December 31, 1997, and the four quarters in 2001.

GAAP G&A Expenses and Operating Expense Ratios

(dollars in thousands)	Total G&A Expenses	Total G&A Expenses/ Average Assets	Total G&A Expenses/ Average Equity
For the Year Ended December 31, 2001	$ 7,311	0.14%	1.67%
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, 2001	$3,004	0.17%	1.78%
For the Quarter Ended September 30, 2001	$1,993	0.13%	1.76%
For the Quarter Ended June 30, 2001	$1,393	0.12%	1.44%
For the Quarter Ended March 31, 2001	$ 921	0.13%	1.90%

Ratios for the period ended December 31, 1997 and the four quarters in 2001 have been annualized.

Net Income and Return on Average Equity

Our net income was $92.3 million for the year ended December 31, 2001, $16.6 million for the year ended December 31, 2000, and $18.1 million for the year ended December 31, 1999. Our return on average equity was 21.1% for the year ended December 31, 2001, 14.1% for the year ended December 31, 2000, and 15.4% for the year ended December 31, 1999. The increase in net income for the year ended December 2001, as compared to the year ended December 31, 2000, is a direct result of growth in our balance sheet following our three pubic offerings in 2001, as well as the favorable interest rate environment during the year 2001.

The substantial increase in interest expense, resulting from an overall increase in interest rates, for the year ended December 31, 2000 was the primary reason that our earnings decreased, when compared to the year ended December 31, 1999. We were, however, able to take advantage of appreciation in asset value in 2001. The gain on sale of securities increased by $2.6 million for the year ended December 31, 2001, as compared to the prior year. The G&A expenses remained relatively constant during the years ended December 31, 2000 and 1999. 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, 2001, 2000, 1999, 1998, and period ended December 31, 1997, and for the four quarters in 2001.

Components of Return on Average Equity

	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, 2001	21.72%	1.05%	1.67%	21.10%
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, 2001	23.34%	1.57%	1.78%	23.13%
For the Quarter Ended September 30, 2001	23.97%	1.05%	1.76%	23.26%
For the Quarter Ended June 30, 2001	20.37%	0.50%	1.45%	19.42%
For the Quarter Ended March 31, 2001	18.54%	0.56%	1.90%	17.20%

Ratios for the period ended December 31, 1997 and the four quarters in 2001 have been annualized.

Financial Condition

Mortgage-Backed Securities

All of our mortgage-backed securities at December 31, 2001, 2000, and 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, 2001, 2000, and 1999 we had on our balance sheet a total of $2.1 million, $989,000, and $1.1 million, 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 $139.4 million, $24.3 million, and $23.6 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 $1.7 billion for the year ended December 31, 2001, $168.5 million for the year ended December 31, 2000, and $362.7 million for the year ended December 31, 1999. The increase in prepayments in 2001 from 2000 was primarily because we acquired more mortgage-backed securities following our three public offerings. The decrease in 2000 compared to 1999 was due to higher interest rates during the year. 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, 2001, 2000, 1999, 1998 and 1997, September 30, 2001, June 30, 2001, and March 31, 2001.

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, 2001	$7,399,941	$137,269	$7,537,210	101.86%	$ 7,575,379	102.37%	4.41%
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, 2001	$6,275,501	$ 96,674	$6,372,175	101.54%	$6,428,853	102.44%	5.17%
At June 30, 2001	$5,498,235	$ 69,193	$5,567,428	101.26%	$5,572,288	101.34%	5.75%
At March 31, 2001	$3,455,436	$ 42,023	$3,497,459	101.22%	$3,500,610	101.31%	6.43%

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, 2001	$5,793,250	5.90%	3.95%	1.95%	24 months	11.49%	3.87%	78.29%
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, 2001	$4,789,570	6.24%	4.31%	1.93%	27 months	11.46%	4.76%	76.32%
At June 30, 2001	$3,997,580	6.47%	4.60%	1.87%	26 months	11.37%	5.38%	72.71%
At March 31, 2001	$2,495,296	7.01%	5.14%	1.87%	26 months	11.57%	6.35%	72.21%

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, 2001	$1,606,691	6.92%	6.33%	21.71%
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, 2001	$1,485,931	6.88%	6.48%	23.68%
At June 30, 2001	$1,500,655	6.83%	6.71%	27.29%
At March 31, 2001	$ 960,140	6.79%	6.69%	27.79%

At December 31, 2001 we held mortgage-backed securities with coupons linked to the one-year, three-year, and five-year Treasury indices, one-month and six-month LIBOR, six-month Auction Average, twelve-month moving average and the six-month CD rate. At December 31, 2000 and 1999 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, 2001	One-Month LIBOR	Six-Month LIBOR	Six-Month Auction Average	12-Month Moving Average	Six-Month CD Rate	1-Year Treasury Index	3-Year Treasury Index	5-Year Treasury Index
Weighted Average Adjustment Frequency	1mo.	60 mo.	6 mo.	12 mo.	6 mo.	6 mo.	36 mo.	60 mo.
Weighted Average Term to Next Adjustment	1mo.	55 mo.	2 mo.	11 mo.	2 mo.	33 mo.	16 mo.	33 mo.
Weighted Average Annual Period Cap	None	2.00%	0.50%	None	1.00%	1.98%	2.00%	1.96%
Weighted Average Lifetime Cap at December 31, 2001	9.09%	11.50%	12.53%	10.63%	11.40%	12.22%	13.08%	12.92%
Mortgage Principal Value as Percentage of Mortgage-Backed Securities at December 31, 2001	18.32%	0.13%	0.12%	1.06%	0.22%	56.20%	1.35%	0.89%

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%

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, 2001, we had established uncommitted borrowing facilities in this market with 22 lenders in amounts, which we believe, are in excess of our needs. We believe that we have used approximately 52% of our uncommitted borrowing line. 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. At December 31, 2001, we had collateral in excess of the required haircut on our repurchase agreements in the amount of $452.3 million.

For the year ended December 31, 2001, the term to maturity of our borrowings ranged from one day to three years, with a weighted average original term to maturity of 119 days at December 31, 2001. For the years ended December 31, 2000 and 1999, the term to maturity of our borrowings ranged from one day to one year, with a weighted average original term to maturity of 56 days at December 31, 2000, and 50 days at December 31, 1999. At December 31, 2001, the weighted average cost of funds for all of our borrowings was 2.18% and the weighted average term to next rate adjustment was 85 days. 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, 2001, the weighted average original term increased because of the use of three year repurchase agreements.

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, 2001 was $667.4 million, or $11.15 per share. If we had used historical amortized cost accounting, our equity base at December 31, 2001 would have been $629.2 million, or $10.52 per share. 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, 1999 would have been $140.8 million, or $10.37 per share. We completed three public offerings during the year ended December 31, 2001 in which we issued a total of 45,060,100 shares of common stock, and received aggregate net proceeds of $474.2 million. Subsequently, we completed a secondary offering of 23,000,000 shares of common stock in January 2002. Our aggregate net proceeds for this offering was $347.4 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, 2001	2000	1999	1998	1997
Unrealized Gain	$ 53,935	$ 3,020	$ 1,531	$ 3,302	$ 3,253
Unrealized Loss	(15,766)	(16,064)	(39,100)	(9,706)	(1,229)
Net Unrealized Gain (Loss)	$ 38,169	$(13,044)	$ (37,569)	$(6,404)	$ 2,024
Net Unrealized Gain (Loss) as % of Mortgage-Backed Securities Principal Value	0.52%	(0.66%)	(2.59%)	(0.43%)	0.18%
Net Unrealized Gain (Loss) as % of Mortgage-Backed Securities Amortized Cost	0.51%	(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 mark-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 Gains on Available-for-Sale Securities" was $38.2 million, or 0.51% or the amortized cost of our mortgage-backed securities as of December 31, 2001. " 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.

The table below shows our equity capital base as reported and on a historical amortized cost basis at December 31, 2001, 2000, 1999, 1998, and 1997, and September 30, 2001, June 30, 2001 and March 31, 2001. 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, 2001	$629,188	$ 38,169	$ 667,357	$10.52	$11.15
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, 2001	$625,368	$ 56,677	$682,045	$10.47	$11.41
At June 30, 2001	$445,091	$ 4,860	$449,951	$ 9.96	$10.07
At March 31, 2001	$248,732	$ 3,151	$251,883	$ 9.67	$ 9.80

Leverage

Our debt-to-GAAP reported equity ratio at December 31, 2001, 2000, and 1999 was 9.5:1, 12.0:1, and 12.9:1, 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 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 affect 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 98.2% of our total assets at December 31, 2001, 99.9% of our total assets at December 31, 2000 and 1999, as compared to the Internal Revenue Code requirement that at least 75% of our total assets be qualified REIT assets. We also calculate that 100% 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, 2001, 2000, and 1999. 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, 2001, 2000, and 1999 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, 2001, 2000, and 1999 we were in compliance with this requirement.

Statements of Financial Condition

December 31,	2001	2000
Assets		
Cash and Cash Equivalents	$ 429,247	$ 113,061
Mortgage-Backed Securities—At fair value	7,575,379,313	1,978,219,376
Receivable for Mortgage-Backed Securities Sold	94,502,807	44,933,631
Accrued Interest Receivable	46,803,644	11,502,482
Other Assets	198,888	260,238
Total Assets	$7,717,313,899	$2,035,028,788
Liabilities and Stockholders' Equity		
Liabilities:		
Repurchase agreements	$6,367,710,186	$1,628,359,000
Payable for Mortgage-Backed Securities purchased	627,063,523	258,798,138
Accrued interest payable	16,043,004	8,314,414
Dividends payable	35,896,185	3,630,745
Other liabilities	2,009,533	
Accounts payable	1,234,463	284,105
Total liabilities	7,049,956,894	1,899,386,402
Stockholders' Equity:		
Common stock: par value $.01 per share; 100,000,000 authorized, 59,826,975 and 14,522,978 shares issued and outstanding, respectively	598,270	145,230
Additional paid-in capital	623,985,662	147,844,861
Accumulated other comprehensive income (loss)	38,169,285	(13,044,259)
Retained earnings	4,603,788	696,554
Total stockholders' equity	667,357,005	135,642,386
Total Liabilities and Stockholders' Equity	$7,717,313,899	$2,035,028,788

See notes to financial statements.

Statements of Operations

Years Ended December 31,	2001	2000	1999
Interest Income:			
Mortgage-Backed Securities and cash equivalents	$ 263,057,732	$109,750,406	$ 89,811,994
Interest Expense:			
Repurchase agreements	168,055,304	92,901,697	69,846,206
Net Interest Income	95,002,428	16,848,709	19,965,788
Gain on sale of Mortgage-Backed Securities	4,586,465	2,025,205	454,782
General and Administrative Expenses	7,311,208	2,286,626	2,281,290
Net Income	92,277,685	16,587,288	18,139,280
Other Comprehensive Income (Loss):			
Unrealized gain (loss) on available-for-sale securities	55,800,009	26,549,456	(30,709,453)
Less reclassification adjustment for gains included in net income	(4,586,465)	(2,025,205)	(454,782)
Other comprehensive income (loss)	51,213,544	24,524,251	(31,164,235)
Total Comprehensive Income (Loss)	$143,491,229	$ 41,111,539	$(13,024,955)
Net Income Per Share:			
Basic	$ 2.23	$ 1.18	$ 1.41
Diluted	$ 2.21	$ 1.15	$ 1.35
Average Number of Shares Outstanding:			
Basic	41,439,631	14,089,436	12,889,510
Diluted	41,857,498	14,377,459	13,454,007

See notes to financial statements.

Statements of Stockholders' Equity

	Common Stock Par Value	Additional Paid-in Capital	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	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 loss	—	—	$(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, $1.38 per 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 share	—	—	—	(16,333,252)	—	(16,333,252)
Balance, December 31, 2000	145,230	147,844,861	—	696,554	(13,044,259)	135,642,386
Net income	—	—	$ 92,277,685	92,277,685	—	—
Other comprehensive income:						
Unrealized net gains on securities, net of reclassification adjustment	—	—	51,213,544	—	51,213,544	—
Comprehensive income	—	—	$ 143,491,229	—	—	143,491,229
Exercise of stock options	2,747	2,971,919	—	—	—	2,974,666
Shares exchanged upon exercise of stock options	(416)	(587,652)	—	—	—	(588,068)
Proceeds from direct purchase	108	142,348	—	—	—	142,456
Proceeds from secondary offerings	450,601	473,614,186	—	—	—	474,064,787
Dividends declared for the year ended December 31, 2001, $1.75 per share	—	—	—	(88,370,451)	—	(88,370,451)
Balance, December 31, 2001	$ 598,270	$623,985,662	—	$ 4,603,788	$ 38,169,285	$ 667,357,005

See notes to financial statements.

Statements of Cash Flows

Years Ended December 31,	2001	2000	1999
Cash Flows from Operating Activities:			
Net income	$ 92,277,685	$ 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	36,865,112	2,646,753	6,103,239
Market value adjustment on long term repurchase agreement	985,719		
Gain on sale of Mortgage-Backed Securities	(4,586,465)	(2,025,205)	(454,782)
Stock option expense	789,889		
Increase in accrued interest receivable	(35,301,162)	(4,644,799)	(98,310)
(Increase) decrease in other assets	61,350	(62,342)	36,988
Increase in accrued interest payable	7,728,590	1,631,727	1,630,061
Increase in other liabilities and accounts payable	950,358	120,005	24,864
Net cash provided by operating activities	99,771,076	14,253,427	25,381,340
Cash Flows from Investing Activities:			
Purchase of Mortgage-Backed Securities	(8,194,215,283)	(952,737,643)	(559,695,956)
Proceeds from sale of Mortgage-Backed Securities	1,248,811,946	489,809,698	122,552,293
Principal payments on Mortgage-Backed Securities	1,685,874,506	168,516,759	362,657,549
Net cash used in investing activities	(5,259,528,831)	(294,411,186)	(74,486,114)
Cash Flows from Financing Activities:			
Proceeds from repurchase agreements	49,773,649,527	14,196,953,221	11,202,660,000
Principal payments on repurchase agreements	(45,033,274,527)	(13,906,889,971)	(11,144,874,250)
Proceeds from exercise of stock options	1,596,709	198,762	233,276
Proceeds from direct equity offering	142,456	7,392,859	8,170,602
Proceeds from secondary offerings	474,064,787	—	—
Dividends paid	(56,105,011)	(17,455,969)	(17,081,956)
Net cash provided by financing activities	5,160,073,941	280,198,902	49,107,672
Net Increase in Cash and Cash Equvalents	316,186	41,143	2,898
Cash and Cash Equvalents, Beginning of Year	113,061	71,918	69,020
Cash and Cash Equvalents, End of Year	$ 429,247	$ 113,061	$ 71,918
Supplemental Disclosure of Cash Flow Information:			
Interest paid	$ 160,326,714	$ 91,269,970	$ 68,216,145
Noncash Financing Activities:			
Net change in unrealized loss on available-for-sale securities	$ 51,213,544	$ 24,524,251	$ (31,164,235)
Dividends declared, not yet paid	$ 35,896,185	$ 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, 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, based on market prices provided by certain dealers who make markets in these financial instruments, 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, 2001, 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 interest method.

Mortgage-Backed Securities transactions are recorded on the trade date. 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, 2001 and 2000, the Company has limited its exposure to credit losses on its portfolio of Mortgage-Backed Securities by only purchasing securities issued by 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, 2001 and 2000, 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.

Recent Accounting Pronouncements—The Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS No. 137, Accounting for Derivative Instruments and Hedging Activities -Deferral of the Effective Date for FASB Statement No. 133, and No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, and as interpreted by the FASB and the Derivatives Implementation Group through Statement No. 133, Implementation Issues, as of January 1, 2001. As of January 1, 2001, the Company had not entered into any derivative agreements; therefore, there were no transition adjustments.

2. MORTGAGE-BACKED SECURITIES

The following table pertains to the Company's Mortgage-Backed Securities classified as available-for-sale as of December 31, 2001, which are carried at their fair value:

	Federal Home Loan Mortgage Corporation	Federal National Mortgage Association	Government National Mortgage Association	Total Mortgage-Backed Securities
Mortgage-Backed Securities, gross	$4,426,194,568	$2,894,026,227	$ 79,719,749	$7,399,940,544
Unamortized discount	(1,345,955)	(755,106)	—	(2,101,061)
Unamortized premium	83,775,464	54,118,304	1,476,777	139,370,545
Amortized cost	4,508,624,077	2,947,389,425	81,196,526	7,537,210,028
Gross unrealized gains	32,636,111	21,223,896	75,100	53,935,107
Gross unrealized losses	(7,985,994)	(7,313,534)	(466,294)	(15,765,822)
Estimated fair value	$4,533,274,194	$2,961,299,787	$ 80,805,332	$ 7,575,379,313

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
Adjustable Rate	$5,908,236,449	$ 44,469,272	$(10,049,070)	$5,942,656,651
Fixed Rate	1,628,973,579	9,465,834	(5,716,751)	1,632,722,662
Total	$ 7,537,210,028	$ 53,935,106	$(15,765,821)	$ 7,575,379,313

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-Backed Securities
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

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
Adjustable Rate	$1,475,409,337	$ 12,565	$ (7,819,597)	$1,467,602,305
Fixed Rate	515,854,299	3,006,944	(8,244,172)	510,617,071
Total	$1,991,263,636	$ 3,019,509	$(16,063,769)	$1,978,219,376

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% at December 31, 2001 and 2000.

During the year ended December 31, 2001, the Company realized $6,770,754 in gains from sales of Mortgage-Backed Securities. Losses totaled $2,184,289 for the year ended December 31, 2001. 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 $6,367,710,186 and $1,628,359,000 of repurchase agreements with a weighted average borrowing rate of 2.18% and 6.55% and a weighted average remaining maturity of 85 days and 29 days as of December 31, 2001 and 2000, respectively. At December 31, 2001 and 2000, Mortgage-Backed Securities actually pledged had an estimated fair value of $6,564,249,752 and $1,668,161,860, respectively.

At December 31, 2001 and 2000, the repurchase agreements had the following remaining maturities:

	2001	2000
Within 30 days	$5,380,006,000	$1,135,886,000
30 to 59 days	206,947,000	363,810,000
60 to 89 days	66,202,000	48,845,000
90 to 119 days	65,037,000	—
Over 120 days	649,518,186	79,818,000
	$ 6,367,710,186	$1,628,359,000

4. OTHER LIABILITIES

In 2001, the Company entered into a repurchase agreement maturing in July 2004, at which time, the repurchase agreement gives the buyer the right to extend, in whole or in part, in three-month increments up to July 2006. The repurchase agreement has a principal value of $100,000,000. The Company accounts for the extension option as a separate interest rate floor liability carried at fair value. The initial fair value of $1,200,000 allocated to the interest rate floor resulted in a similar discount on the repurchase agreement borrowings that is being amortized over the initial term of 3 years using the effective yield method. At December 31, 2001, the fair value of this interest rate floor was a $2,009,533 and was classified as other liabilities. The aggregate charge of $985,719 is included in interest expense for 2001.

5. COMMON STOCK

During the Company's year ending December 31, 2001, the Company declared dividends to shareholders totaling $88,370,451, or $1.75 per share, of which $52,474,266 was paid during the year and $35,896,185 was paid on January 30, 2002.

During the year ended December 31, 2001, 274,231 options were exercised at $2,974,666. Total shares exchanged upon exercise of the stock options were 41,620 at a value of $588,068. Also, 10,856 shares were purchased in dividend reinvestment and share purchase plan, totaling $142,456. The Company completed an offering of common stock in the third quarter issuing 14,991,600 shares, with aggregate net proceeds of $179.6 million. An offering of common stock during the second quarter of 2001 was completed issuing 18,918,500 shares, with aggregate net proceeds of $195.3 million. Additional offerings for 11,150,000 shares were completed during the first quarter for aggregate net proceeds of $99.3 million.

During the Company's year ending December 31, 2000, the Company declared dividends to shareholders totaling $16,333,252, or $1.15 per share, of which $12,702,507 was paid during the year and $3,630,745 was paid on January 30, 2001.

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 the dividend reinvestment and share purchase plan, totaling $8,170,602.

6. 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, 2001, the reconciliation is as follows:

For the Year Ended December 31, 2001	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Net income	$92,277,685		
Basic EPS	92,277,685	41,439,631	$2.23
Effect of dilutive securities:			
Dilutive stock options	—	417,867	
Diluted EPS	$92,277,685	41,857,498	$2.21

Options to purchase 629,576 shares were outstanding during the year and were dilutive as the exercise price of between $4.00 and $11.25 was less than the average stock price for the year of $12.70. Options to purchase 6,250 shares of stock were outstanding and not considered dilutive. The exercise price of $13.69 was greater than the average stock price for the year of $12.70.

For the year ended December 31, 2000, the reconciliation is as follows:

For the 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 and were dilutive as the exercise price of between $4.00 and $8.13 was less than the average stock price for the year of $8.51. Options to purchase 568,926 shares of stock were outstanding and not considered dilutive. The exercise price of 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:

For the 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 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.

7. 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:

	2001	2000	1999
Net earnings—as reported	$92,277,685	$16,587,288	$18,139,280
Net earnings—pro forma	92,012,080	16,468,550	18,010,908
Earnings per share—as reported	$ 2.23	$ 1.18	$ 1.41
Earnings per share—pro forma	$ 2.22	$ 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, 2001: dividend yield of 15.32%; expected volatility of 28%; risk-free interest rate of 4.21%; and the weighted average expected lives of five years. For 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, 2001 is as follows:

	Shares	Weighted Average Exercise Price
Outstanding, January 1, 2001	903,807	$ 8.28
Granted (6,250 NQSOs)	6,250	13.69
Exercised	(274,231)	7.95
Outstanding, December 31, 2001	635,826	$ 8.48
Weighted average fair value of options granted during the year (per share)	$ 0.33	

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	$8.28
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 (289,068 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, 2001:

Exercise Price	Outstanding	Life (Yrs.)
$ 7.94	110,362	9
8.13	213,381	7
8.63	264,705	8
8.94	2,500	1
9.06	3,438	2
10.00	27,000	1
10.75	6,250	1
11.25	1,940	1
13.69	6,250	5
	635,826	7.4

At December 31, 2001, 2000, and 1999 297,018, 341,013, and 162,389 options were vested and not exercised, respectively.

8. COMPREHENSIVE INCOME

The Company adopted Statement of Financial Accounting Standards 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, 2001 and 2000 held securities classified as available-for-sale. At December 31, 2001, the net unrealized gains totaled $38,169,285 and at December 31, 2000, the net unrealized losses totaled $13,044,259.

9. 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:

2002	100,515
2003	110,261
2004	113,279
2005	116,388
2006	119,590
2007	122,888
Total remaining lease payments	$682,921

10. 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. Officers and employees of the Company are actively involved in managing mortgage-backed securities and other fixed income assets for institutional clients through Fixed Income Discount Advisory Company ("FIDAC"). FIDAC is a registered investment advisor, which is 100%-owned by the Chief Executive Officer of Annaly Mortgage Management, Inc. Our management currently allocates rent and other general and administrative expenses 90% to Annaly and 10% to FIDAC.

11. INTEREST RATE RISK

The primary market risk to the Company is interest rate risk. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond the Company's control. Changes in the general level of interest rates can affect net interest income, which is the difference between the interest income earned on interest-earning assets and the interest expense incurred in connection with the interest-bearing liabilities, by affecting the spread between the interest-earning assets and interest-bearing liabilities. Changes in the level of interest rates also can affect the value of the mortgage-backed securities and the Company's ability to realize gains from the sale of these assets.

The Company seeks to manage the extent to which net income changes as a function of changes in interest rates by matching adjustable-rate assets with variable-rate borrowings. In addition, although the Company has not done so to date, the Company may seek to mitigate the potential impact on net income of periodic and lifetime coupon adjustment restrictions in the 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. The Company will seek to mitigate the effect of changes in the mortgage principal repayment rate by balancing assets purchased at a premium with assets purchased at a discount. To date, the aggregate premium exceeds the aggregate discount on the mortgage-backed securities. As a result, prepayments, which result in the expensing of unamortized premium, will reduce net income compared to what net income would be absent such prepayments.

12. SUBSEQUENT EVENT

The Company completed a secondary offering of 20,000,000 shares of company common stock on January 24, 2002. The aggregate net proceeds to the Company after deducting expenses are estimated to be $302.1 million. The underwriters exercised an option to purchase 3,000,000 additional shares of common stock to cover over-allotments on January 31, 2002, providing the Company with additional net proceeds of $45.4 million.

13. SUMMARIZED QUARTERLY RESULTS (UNAUDITED)

The following is a presentation of the quarterly results of operations for the year ended December 31, 2001.

Quarters Ending	March 31, 2001	June 30, 2001	September 30, 2001	December 31, 2001
Interest income from Mortgage-Backed Securities and cash	$42,434,421	$64,789,651	$75,774,532	$80,059,128
Interest expense on repurchase agreements	33,453,077	45,283,966	48,620,332	40,697,929
Net interest income	8,981,344	19,505,685	27,154,200	39,361,199
Gain on sale of Mortgage-Backed Securities	269,478	481,936	1,184,399	2,650,651
General and administrative expenses	920,549	1,392,778	1,993,431	3,004,450
Net income	$ 8,330,273	$18,594,843	$26,345,168	$39,007,400
Net income per share:				
Basic	$ 0.38	$ 0.48	$ 0.58	$ 0.65
Dilutive	$ 0.37	$ 0.48	$ 0.57	$ 0.65
Average number of shares outstanding:				
Basic	21,851,481	38,473,928	45,503,179	59,776,777
Dilutive	22,535,210	39,054,488	45,959,693	60,155,994

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

Independent Auditors' Report

To the Board of Directors and 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, 2001 and 2000, and the related statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2001. 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 audit 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, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

New York, New York
February 15, 2002

Common Stock and Market Data

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, 2001	$ 11.50	$ 8.75	$ 11.26
Second Quarter ended June 30, 2001	$ 13.76	$ 10.50	$ 13.71
Third Quarter ended September 30, 2001	$ 14.93	$ 12.70	$ 14.45
Fourth Quarter ended December 31, 2001	$ 17.01	$ 13.20	$ 16.00
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, 2001	$ 0.30
Second Quarter ended June 30, 2001	$ 0.40
Third Quarter ended September 30, 2001	$ 0.45
Fourth Quarter ended December 31, 2001	$ 0.60
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. We have not established a minimum dividend payment level and our ability to pay dividends may be adversely affected for the reasons described under the caption "Risk Factors" in the 2001 Form 10-K. All distributions will be made at the discretion of our Board of Directors 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, President &
Chief Executive Officer

Wellington J. Denahan
Vice Chairman &
Chief Investment Officer

Kathryn F. Fagan
Chief Financial Officer & Treasurer

Jennifer A. Stephens
Executive Vice President &
Corporate Secretary

James P. Fortescue
Senior Vice President

Kristopher R. Konrad
Senior Vice President

Rose-Marie Lyght
Vice President

Board of Directors

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

Wellington J. Denahan
Vice Chairman &
Chief Investment 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

Annaly Mortgage Management, Inc.
12 East 41st Street, Suite 700
New York, New York 10017
(888) 8ANNALY

Legal Counsel

McKee Nelson LLP
1919 M. Street, NW
Suite 800
Washington, D.C. 20036

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)

Annual Meeting

The Annual Meeting of Stockholders will be held Friday, May 17th, 2002 at 10 a.m. at:
The Union League Club
Library
38 East 37th Street
New York, New York

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained herein are not, and certain statements contained in our future filings with the Securities and Exchange Commission (the "SEC" or the "Commission"), in our press releases or in our other public or shareholder communications may not be, based on historical facts and are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements which are based on various assumptions, (some of which are beyond our control) may be identified by reference to a future period or periods, or by the use of forward-looking terminology, such as "may," "will," "believe," "expect," "anticipate," "continue," or similar terms or variations on those terms, or the negative of those terms. Actual results could differ materially from those set forth in forward-looking statements due to a variety of factors, including, but not limited to, changes in interest rates, changes in yield curve, changes in prepayment rates, the availability of mortgage-backed securities for purchase, the availability of financing and, if available, the terms of any financing. For a discussion of the risks and uncertainties which could cause actual results to differ from those contained in the forward-looking statements, see the information described under the caption "Risk Factors" in the 2001 Form 10-K. We do not undertake, and specifically disclaim any obligation, to publicly release the result of any revisions which may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

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Annaly Mortgage Management, Inc.
12 East 41st Street, Suite 700
New York, New York 10017

1.888.8ANNALY
annaly.com