Anworth Mortgage Asset Corporation

Annual Report

2003

SELECTED FINANCIAL DATA

The selected financial data as of December 31, 2003 and 2002 and for the years ended December 31, 2003, 2002 and 2001 are derived from our audited financial statements included in this Form 10-K. The selected financial data as of December 31, 2001, 2000 and 1999 and for the years ended December 31, 2000 and 1999 are derived from audited financial statements not included in this Form 10-K. You should read these selected financial data together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited and unaudited financial statements and notes thereto that are included in this Form 10-K beginning on page F-1.

	Year Ended December 31,				
	1999	2000	2001	2002	2003
	(amounts in thousands, except per share data)				
Statement of Operations Data:					
Days in period	365	366	365	365	365
Interest and dividend income	$ 9,501	$ 10,314	$ 10,768	$ 66,855	$ 100,077
Interest expense	(7,892)	(8,674)	(6,363)	(29,576)	(45,661)
Net interest income	1,609	1,640	4,405	37,279	54,416
Gain on sales	—	—	430	4,709	3,497
Expenses	(400)	(379)	(1,129)	(10,318)	(7,718)
Net income	$ 1,209	$ 1,261	$ 3,706	$ 31,670	$ 50,195
Basic net income per average share	$ 0.53	$ 0.54	$ 1.52	$ 1.81	$ 1.52
Diluted net income per average share	$ 0.53	$ 0.54	$ 1.50	$ 1.80	$ 1.52
Dividends declared per share(1)	$ 0.53	$ 0.40	$ 1.64	$ 2.00	$ 1.56
Weighted average shares outstanding	2,290	2,331	2,467	17,591	33,112

	At December 31,				
	1999	2000	2001	2002	2003
	(amounts in thousands, except per share data)				
Balance Sheet Data:					
Mortgage-backed securities, net	$161,488	$134,889	$420,214	$2,430,103	$4,245,853
Total assets	$167,144	$141,834	$424,610	$2,443,884	$4,263,274
Repurchase agreements	$147,690	$121,891	$325,307	$2,153,870	$3,775,691
Total liabilities	$150,612	$123,633	$369,613	$2,178,362	$3,805,877
Stockholders' equity	$ 16,532	$ 18,201	$ 54,997	$ 265,522	$ 457,397
Number of common shares outstanding	2,307	2,350	6,951	25,346	42,707
Book value per share	$ 7.17	$ 7.75	$ 7.91	$ 10.48	$ 10.71

	Year Ended December 31,				
	1999	2000	2001	2002	2003
	(dollar amounts in thousands)				
Other Data (unaudited):					
Average earnings assets	$163,167	$152,289	$167,890	$1,504,350	$3,162,330
Average borrowings	$149,372	$135,631	$152,870	$1,384,887	$2,890,779
Average equity(2)	$ 18,931	$ 19,154	$ 20,279	$ 160,052	$ 367,429
Yield on interest earning assets(3)	5.82%	6.77%	6.41%	4.44%	3.16%
Cost of funds on interest bearing liabilities	5.28%	6.40%	4.16%	2.14%	1.58%
Annualized Financial Ratios (unaudited)(2):					
Net interest margin (net interest income/average assets)	0.99%	1.08%	2.62%	2.48%	1.72%
G&A expenses as a percentage of average assets(4)	0.24%	0.25%	0.32%	0.14%	0.12%
Return on average assets(4)	0.74%	0.83%	2.56%	2.66%	1.71%
Return on average equity(4)	6.38%	6.58%	21.22%	24.96%	14.72%

(1) On September 26, 2000, our board of directors announced that, beginning with the third quarter of 2000, dividends would generally be declared after each quarter-end rather than during the applicable quarter.

(2) Average equity excludes fair value adjustment for mortgage-backed securities.

(3) Excludes gain on sale of securities.

(4) Excludes incentive fees paid to our management company, incentive compensation paid to our employees and the acquisition costs of $3,475,000 paid for our external manager in 2002.

Dear fellow shareholders,

I am writing to update you on the condition of our company.

During 2003, our income was $50,195,000, or $1.52 per share, compared to $31,670,000, or $1.80 per share, earned during 2002. Dividends during 2003 were $1.56 per share. Based on our stock price of $13.93 as of December 31, 2003, this dividend represented an 11% dividend yield to our shareholders.

The year 2003 contained several important milestones for our company:

- Anworth raised $232 million of additional equity capital at an average price per share of $13.40, and for the first time the market capitalization of the company exceeded $500,000,000.
- On May 9th, our shares were listed on the New York Stock Exchange, which we believe will provide increased visibility and increased shareholder liquidity.
- In November, we organized our new subsidiary, Belvedere Trust Mortgage Corp., which is located in San Francisco. Belvedere's business strategy is to acquire residential mortgage loans and finance them through securitizations sold to institutional investors. We believe that the activities of Belvedere will benefit Anworth by providing both an additional channel to acquire mortgage assets and a more diversified and relatively stable source of income from which we will be able to pay dividends to our shareholders.

The increase in the amount of shareholders' capital has had several important benefits for our company. Most importantly, the fixed costs of running our business did not increase proportionately with this increase in capital. Consequently, this decline in our fixed costs per share should eventually result in additional dividends per share.

As I have discussed before, another benefit of additional capital has been the increase in the paid-in capital per share of our company. At the beginning of the year, there were 25,346,000 shares of our common stock outstanding from which we had received paid in capital of $257 million, or $10.13 per share, from shareholders. We invested that $10.13 to produce a return for our shareholders. If the return on this paid-in capital had been 10%, then we would have generated $1.01 per share in earnings available for dividends. After increasing paid-in capital during 2003, we had 42,707,000 shares outstanding from which we had received $489 million, or $11.46 per share. The importance of this to all of us as shareholders is that, if Anworth produces the same 10% return on paid-in capital, our earnings available for dividends would increase to $1.14, or 13% more per share. It is our long-term goal to increase the paid-in capital per share so that each shareholder can continue to benefit in this manner.

Our Business Strategy

We generate income primarily from the difference between the interest income received from our high grade and mostly adjustable-rate residential mortgage-backed securities and the cost of our borrowings which largely finance the purchase of these mortgage assets.

As you read the attached Annual Report on Form 10-K, which is on file with the United States Securities and Exchange Commission, you will observe that our book value, including unrealized gains and losses as of December 31, 2003, rose to $10.71 per share from $10.47 at December 31, 2002. You will also note that our portfolio at year-end consisted of 26% adjustable-rate mortgage-backed securities with interest rate resets within one year, 65% in adjustable-rate mortgage-backed securities resetting between one and five years and 9% in fixed-rate mortgage-backed securities. At year-end, all of our securities were issued by Fannie Mae, Freddie Mac or Ginnie Mae.

A few weeks from now when you read our first quarter 2004 report on Form 10-Q, which we will file with the Securities and Exchange Commission, you will note that we will also own some of the mortgage loans acquired by Belvedere and some of the mortgage-backed securities created by Belvedere's first securitization, on February 24, 2004, of the other mortgage loans acquired by Belvedere.

Interest Rate Outlook

During 2003, the Federal Reserve continued to maintain its accommodative monetary policy as the U.S. economy slowly began to recover. During the past summer, the Federal Reserve signaled its concern about the fragile nature of the recovery when it lowered its target Fed Funds rate to 1.00%.

The result of this continued reduction in short-term interest rates was a significant reduction in our cost of borrowing, which declined from 2.14% in 2002 to 1.58% in 2003. Similarly, our yield on interest earning assets, which excludes gains on the sale of securities, declined from 4.44% in 2002 to 3.16% in 2003.

As discussed last year, we continue to believe that this weakness of the U.S. economy makes less certain the timing of the Federal Reserve's need to eventually raise interest rates when it becomes necessary to subdue a robust economy. Nonetheless, we continue to expect that our cost of borrowing may increase by some measure during 2004, but we do not presently envision the dramatic increases in short-term rates that occurred in 1994 and 2000. We also believe that, unless there is a sudden increase in global instability from terrorist or other geopolitical activities resulting in a weakness in the U.S. dollar, the United States economy should, as a whole, continue to improve in spite of the migration of many domestic jobs to other countries with lower operating costs.

Our Stock's Return

Anworth's year-end closing price on the New York Stock Exchange was $13.93, providing investors with a positive return for the year. Since our initial public offering in March 1998 at $9.00 per share and with dividends reinvested at market prices, our stock has provided investors with a compounded annual return of 22% through December 31, 2003.

This compounded return was achieved during a period when stocks in general failed to produce the types of returns which many investors had come to expect to fund their retirements and lifestyle choices. During this period, the S&P 500 stock index provided a compounded return of 2%, and the Lehman Aggregate Bond Index provided a compounded return of 7%.

Dividend Reinvestment and Stock Purchase Plan

We believe that our Dividend Reinvestment and Stock Purchase Plan continues to be an attractive benefit of share ownership. Shareholders can, without brokerage commissions, reinvest their dividends in additional Anworth shares at a discount of 5% to the average market price. In addition, shareholders and investors can purchase up to an additional $10,000 in Anworth shares at a discount which is presently 1%. Please call or e-mail us to receive a prospectus that describes the particulars of this Plan before you invest.

Anworth.com

The size of our investor e-mail list continues to grow, and we are always pleased to add interested investors to the list for news releases and the like. You can register yourself for e-mail alerts at our website, *www.anworth.com*, where you can also get information about our corporate governance procedures, presentations to investor groups and other statistical information.

Our Philosophy

We continue to believe that, as a Real Estate Investment Trust, our company is well suited to participate in the mortgage finance industry and provide a valuable service to residential homeowners. Many financial institutions that originate mortgages no longer believe that keeping these loans in their portfolios is the most efficient use of their capital. Therefore, these originators promptly sell their residential mortgages to more permanent investors like Anworth.

Anworth is now a significant financial intermediary organization which is a long-term beneficial owner of more than $4 billion of residential mortgages.

Unlike many large institutional investors that tend to speculate in mortgage rates and add to mortgage rate volatility, a Real Estate Investment Trust can improve mortgage rate stability by permanently owning residential mortgage securities and loans in a very capital efficient and tax efficient manner. We believe that, over the long-term, Anworth and the home-owning public can benefit significantly from this trend.

Annual Stockholders' Meeting

Lastly, and as always, we invite you to attend our annual stockholders' meeting in Santa Monica with the Pacific Ocean and the famous Will Rogers state beach right outside our windows. And if that and our doughnuts aren't good enough, we also give interesting demonstrations of the technology used to evaluate our residential mortgage-backed securities and their convexity! I am confident that those who have come in the past will agree that we provide good weather and an interesting and informative experience. If you need information regarding directions, hotels, restaurants, etc, please give us a call.

As always, I thank you for your continued support.

Lloyd McAdams, CFA
Chairman and Chief Executive

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

OR

☐ **TRANSACTION REPORT PURSUANT TO SECTION 13 OR 15 OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 001-13709

ANWORTH MORTGAGE ASSET CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

MARYLAND	**52-2059785**
(State or Other Jurisdiction of Incorporation Organization)	**(I.R.S. Employer Identification No.)**
1299 OCEAN AVENUE, #250, SANTA MONICA, CALIFORNIA	**90401**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant's telephone number, including area code: (310) 255-4493
Securities registered pursuant to Section 12(b) of the Act: NONE
Securities registered pursuant to Section 12(g) of the Act:

COMMON STOCK, $0.01 PAR VALUE

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark that disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☒ No ☐

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the average closing bid and asked prices of such stock, as of June 30, 2003, was approximately $490,489,922. (All officers and directors of the registrant are considered affiliates.)

At March 4, 2004 the registrant had 43,958,852 shares of Common Stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of the Form 10-K incorporates by reference certain portions of the Registrant's proxy statement for its 2004 annual meeting of stockholders to be filed with the Commission not later than 120 days after the end of the fiscal year covered by this report.

ANWORTH MORTGAGE ASSET CORPORATION

FORM 10-K ANNUAL REPORT

FISCAL YEAR ENDED DECEMBER 31, 2003

TABLE OF CONTENTS

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CAUTIONARY STATEMENT

This Report contains or incorporates by reference certain forward-looking statements. Forward-looking statements are those that predict or describe future events or trends and that do not relate solely to historical matters. You can generally identify forward-looking statements as statements containing the words "will," "believe," "expect," "anticipate," "intend," "estimate," "assume" or other similar expressions. You should not rely on our forward-looking statements because the matters they describe are subject to known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond our control. These forward-looking statements are subject to assumptions that are difficult to predict and to various risks and uncertainties. Therefore, our actual results could differ materially and adversely from those expressed in any forward-looking statements as a result of various factors, some of which are listed under the section "Risk Factors" at the end of Item 7 of this Report. We undertake no obligation to revise or update publicly any forward-looking statements for any reason.

As used in this Form 10-K, "company," "we," "us," "our," "Anworth" and "Anworth Mortgage" refer to Anworth Mortgage Asset Corporation.

PART I.

Item 1. BUSINESS

Overview

We are in the business of investing primarily in United States agency and other highly rated single-family adjustable-rate and fixed-rate mortgage-backed securities that we acquire in the secondary market. United States agency securities are securities that are obligations guaranteed by the United States government or its sponsored enterprises or agencies such as Fannie Mae (FNMA), Freddie Mac (FHLMC) or Ginnie Mae (GNMA). We seek attractive long-term investment returns by investing our equity capital and borrowed funds in such securities. Our returns are earned on the spread between the yield on our earning assets and the interest cost of the funds we borrow. We have elected to be taxed as a real estate investment trust, or REIT, under the United States Internal Revenue Code. As a REIT, we routinely distribute substantially all of the income generated from our operations to our stockholders. As long as we retain our REIT status, we generally will not be subject to federal or state taxes on our income to the extent that we distribute our net income to our stockholders.

At December 31, 2003, we had total assets of $4,263 million and equity of $457 million, or $10.71 book value per share. As of that date, approximately 100% of our assets consisted of mortgage-backed securities guaranteed by either a government-sponsored enterprise or an agency of the United States government such as Fannie Mae, Freddie Mac and Ginnie Mae. For the year ended December 31, 2003, we reported net income of $50.2 million, or $1.52 per diluted share.

We were incorporated in Maryland on October 20, 1997 and commenced our operations on March 17, 1998. From the time of our inception through June 13, 2002, we were externally managed pursuant to a management agreement with Anworth Mortgage Advisory Corporation, or the manager. As an externally managed company, we had no employees of our own and relied on the manager to conduct our business and operations. On June 13, 2002, the manager merged with and into our company. As a result of the merger, we are now an internally managed company.

On November 3, 2003, we formed a wholly-owned subsidiary called Belvedere Trust Mortgage Corporation, or Belvedere Trust. Belvedere Trust was formed as a qualified REIT subsidiary to acquire and own mortgage loans, with a focus on the high credit-quality jumbo adjustable rate, hybrid and second-lien mortgage markets. Belvedere Trust was also formed with the intent of securitizing the mortgage loans it acquires and selling mortgage-backed securities in the capital markets. We have made an initial investment of $25 million in Belvedere Trust to capitalize its initial mortgage operations. We have also formed BT Management Company, L.L.C., or BT Management, a Delaware limited liability company that is owned 50% by us, 27.5% by Claus Lund, the Chief Executive Officer of Belvedere Trust, 17.5% by Russell J. Thompson, the Chief Financial Officer of Belvedere Trust, and 5% by Lloyd McAdams, our Chairman and Chief Executive Officer. BT Management has entered into a management agreement with Belvedere Trust pursuant to which BT Management will manage the day-to-day operations of Belvedere Trust in exchange for an annual base management fee and a quarterly incentive fee. We believe that over time Belvedere Trust's business will become an important part of our overall operations and business strategy.

Our Strategy

Investment Strategy

Our strategy is to invest primarily in United States agency and other highly rated single-family adjustable-rate and fixed-rate mortgage-backed securities that we acquire in the secondary market. We seek to acquire assets that will produce competitive returns after considering the amount and nature of the anticipated returns from the investment, our ability to pledge the investment to secure collateralized borrowings and the costs associated with financing, managing, securitizing and reserving for these investments. We do not currently originate mortgage loans or provide other types of financing to the owners of real estate.

Financing Strategy

We finance the acquisition of mortgage-backed securities with short-term borrowings and, to a lesser extent, equity capital. The amount of short-term borrowings we employ depends on, among other factors, the amount of our equity capital. We use leverage to attempt to increase potential returns to our stockholders. Pursuant to our capital and leverage policy, we seek to strike a balance between the under-utilization of leverage, which reduces potential returns to stockholders, and the over-utilization of leverage, which could reduce our ability to meet our obligations during adverse market conditions.

We usually borrow at short-term rates using reverse repurchase agreements, or "repurchase agreements." Repurchase agreements are generally short-term in nature. We actively manage the adjustment periods and the selection of the interest rate indices of our borrowings against the adjustment periods and the selection of indices on our mortgage-related assets in order to limit our liquidity and interest rate-related risks. We generally seek to diversify our exposure by entering into repurchase agreements with multiple lenders. In addition, we enter into repurchase agreements with institutions we believe are financially sound and which meet credit standards approved by our board of directors.

Growth Strategy

In addition to the strategies described above, we intend to pursue other strategies to further grow our earnings and our dividends per share, which may include the following:

- increasing the size of our balance sheet at a rate faster than the rate of increase in our operating expenses;
- issuing new common stock when market opportunities exist to profitably increase the size of our balance sheet through the use of leverage; and
- lowering our effective borrowing costs over time by seeking direct funding with collateralized lenders, rather than using financial intermediaries, and possibly using commercial paper, medium-term note programs, preferred stock and other forms of capital.

Our Operating Policies and Programs

We have established the following four primary operating policies to implement our business strategies:

- our Asset Acquisition Policy;
- our Capital and Leverage Policy;
- our Credit Risk Management Policy; and
- our Asset/Liability Management Policy.

Asset Acquisition Policy

Our asset acquisition policy provides guidelines for acquiring investments and contemplates that we will acquire a portfolio of investments that can be grouped into specific categories. Each category and our respective investment guidelines are as follows:

- *Category I*—At least 60% of our total assets will generally be adjustable or fixed-rate mortgage securities and short-term investments. Assets in this category will be rated within one of the two highest rating categories by at least one nationally recognized statistical rating organization, or if not rated, will be obligations guaranteed by the United States government or its agencies, Fannie Mae or Freddie Mac.
- *Category II*—At least 90% of our total assets will generally consist of Category I investments plus unrated mortgage loans, mortgage securities rated at least investment grade by at least one nationally recognized statistical rating organization, or shares of other REITs or mortgage-related companies.
- *Category III*—No more than 10% of our total assets may be of a type not meeting any of the above criteria. Among the types of assets generally assigned to this category are mortgage securities rated below investment grade and leveraged mortgage derivative securities.

Under our Category III investment criteria, we may acquire other types of mortgage derivative securities, including, but not limited to, interest only, principal only or other mortgage-backed securities that receive a disproportionate share of interest income or principal.

Capital and Leverage Policy

We employ a leverage strategy to increase our investment assets by borrowing against existing mortgage-related assets and using the proceeds to acquire additional mortgage-related assets. We generally borrow between eight to twelve times the amount of our equity, although our borrowings may vary from time to time depending on market conditions and other factors deemed relevant by our management and our board of directors. We believe that this will leave an adequate capital base to protect against interest rate environments in which our borrowing costs might exceed our interest income from mortgage-related assets. We enter into collateralized borrowings with institutions which meet credit standards approved by our board of directors.

Depending on the different cost of borrowing funds at different maturities, we may vary the maturities of our borrowed funds in an attempt to produce lower borrowing costs. Our borrowings are short-term and we manage actively, on an aggregate basis, both the interest rate indices and interest rate adjustment periods of our borrowings against the interest rate indices and interest rate adjustment periods on our mortgage-related assets.

Our mortgage-related assets are financed primarily at short-term borrowing rates through repurchase agreements and dollar-roll agreements. In the future, we may also employ borrowings under lines of credit and other collateralized financings that we may establish with approved institutional lenders.

Credit Risk Management Policy

We review credit risk and other risks of loss associated with each of our potential investments. In addition, we may diversify our portfolio of mortgage-related assets to avoid undue geographic, insurer, industry and certain other types of concentrations. We may reduce certain risks from sellers and servicers through representations and warranties. Our board of directors monitors the overall portfolio risk and determines appropriate levels of provision for loss.

Compliance with our credit risk management policy guidelines is determined at the time of purchase of mortgage assets, based upon the most recent valuation utilized by us. Such compliance is not affected by events subsequent to such purchase, including, without limitation, changes in characterization, value or rating of any specific mortgage assets or economic conditions or events generally affecting any mortgage-related assets of the type held by us.

Asset/Liability Management Policy

Interest Rate Risk Management. To the extent consistent with our election to qualify as a REIT, we follow an interest rate risk management program intended to protect our portfolio of mortgage-related assets and related debt against the effects of major interest rate changes. Specifically, our interest rate management program is formulated with the intent to offset, to some extent, the potential adverse effects resulting from rate adjustment limitations on our mortgage-related assets and the differences between interest rate adjustment indices and interest rate adjustment periods of our adjustable-rate mortgage-related assets and related borrowings.

Our interest rate risk management program encompasses a number of procedures, including the following:

- monitoring and adjusting, if necessary, the interest rate sensitivity of our mortgage-related assets compared with the interest rate sensitivities of our borrowings;
- attempting to structure our borrowing agreements relating to adjustable-rate mortgage-related assets to have a range of different maturities and interest rate adjustment periods (although substantially all will be less than a year); and
- actively managing, on an aggregate basis, the interest rate indices and interest rate adjustment periods of our mortgage-related assets compared to the interest rate indices and adjustment periods of our borrowings.

As a result, we expect to be able to adjust the average maturity/adjustment period of our borrowings on an ongoing basis by changing the mix of maturities and interest rate adjustment periods as borrowings come due or are renewed. Through the use of these procedures, we attempt to reduce the risk of differences between interest rate adjustment periods of our adjustable-rate mortgage-related assets and our related borrowings.

Depending on market conditions and the cost of the transactions, we may conduct certain hedging activities in connection with the management of our portfolio. To the extent consistent with our election to qualify as a REIT, we may adopt a hedging strategy intended to lessen the effects of interest rate changes and to enable us to earn net interest income in periods of generally rising, as well as declining or static, interest rates. Specifically, hedging programs are formulated with the intent to offset some of the potential adverse effects of changes in interest rate levels relative to the interest rates on the mortgage-related assets held in our investment portfolio, and differences between the interest rate adjustment indices and periods of our mortgage-related assets and our borrowings. We monitor carefully, and may have to limit, our asset/liability management program to assure that we do not realize excessive hedging income, or hold hedges having excess value in relation to mortgage-related assets, which would result in our disqualification as a REIT or, in the case of excess hedging income, if the excess is due to reasonable cause and not willful neglect, the payment of a penalty tax for failure to satisfy certain REIT income tests under the tax code. In addition, asset/liability management involves transaction costs that increase dramatically as the period covered by hedging protection increases and that may increase during periods of fluctuating interest rates.

Prepayment Risk Management. We also seek to lessen the effects of prepayment of mortgage loans underlying our securities at a faster or slower rate than anticipated. We accomplish this by structuring a diversified portfolio with a variety of prepayment characteristics, investing in mortgage-related assets with prepayment prohibitions and penalties, investing in certain mortgage security structures that have prepayment protections and purchasing mortgage-related assets at a premium and at a discount. We invest in mortgage-related assets that, on a portfolio basis, do not have significant purchase price premiums. Under normal market conditions, we seek to maintain the aggregate capitalized purchase premium of the portfolio at 3% or less. In addition, we can purchase principal-only derivatives to a limited extent as a hedge against prepayment risks. We monitor prepayment risk through periodic review of the impact of a variety of prepayment scenarios on our revenues, net earnings, dividends, cash flow and net balance sheet market value.

We believe that we have developed cost-effective asset/liability management policies to mitigate prepayment risks. However, no strategy can completely insulate us from prepayment risks. Further, as noted above, certain of the federal income tax requirements that we must satisfy to qualify as a REIT limit our ability to fully hedge our prepayment risks. Therefore, we could be prevented from effectively hedging our interest rate and prepayment risks.

Our Investments

Mortgage-Backed Securities

Pass-Through Certificates. We principally invest in pass-through certificates, which are securities representing interests in pools of mortgage loans secured by residential real property in which payments of both interest and principal on the securities are generally made monthly, in effect, passing through monthly payments made by the individual borrowers on the mortgage loans which underlie the securities, net of fees paid to the issuer or guarantor of the securities. Early repayment of principal on some mortgage-backed securities, arising from prepayments of principal due to sale of the underlying property, refinancing or foreclosure, net of fees and costs which may be incurred, may expose us to a lower rate of return upon reinvestment of principal. This is generally referred to as "*prepayment risk*". Additionally, if a security subject to prepayment has been purchased at a premium, the unamortized value of the premium would be lost in the event of prepayment.

Like other fixed-income securities, when interest rates rise, the value of a mortgage-backed security generally will decline. When interest rates are declining, however, the value of mortgage-backed securities with prepayment features may not increase as much as other fixed-income securities. The rate of prepayments on underlying mortgages will affect the price and volatility of mortgage-backed securities and may have the effect of shortening or extending the effective maturity of the security beyond what was anticipated at the time of purchase. When interest rates rise, our holdings of mortgage-backed securities may experience reduced returns if the owners of the underlying mortgages pay off their mortgages later than anticipated. This is generally referred to as "*extension risk*".

Payment of principal and interest on some mortgage pass-through securities, though not the market value of the securities themselves, may be guaranteed by the full faith and credit of the federal government, including securities backed by Ginnie Mae, or by agencies or instrumentalities of the federal government, including Fannie Mae and Freddie Mac. Mortgage-backed securities created by non-governmental issuers, including commercial banks, savings and loan institutions, private mortgage insurance companies, mortgage bankers and other secondary market issuers, may be supported by various forms of insurance or guarantees, including individual loan, title, pool and hazard insurance and letters of credit, which may be issued by governmental entities, private insurers or the mortgage poolers.

Collateralized Mortgage Obligations. Collateralized mortgage obligations, or CMOs, are mortgage-backed securities. Interest and principal on a CMO are paid, in most cases, on a monthly basis. CMOs may be collateralized by whole mortgage loans, but are more typically collateralized by portfolios of mortgage pass-through securities. CMOs are structured into multiple classes, with each class bearing a different stated maturity. Monthly payments of principal, including prepayments, are first returned to investors holding the shortest maturity class; investors holding the longer maturity classes receive principal only after the first class has been retired. We will typically consider CMOs that are issued or guaranteed by the federal government or by any of its agencies or instrumentalities to be United States government securities.

Other Mortgage-Backed Securities

Mortgage Derivative Securities. We may acquire mortgage derivative securities in an amount not to exceed 10% of our total assets. Mortgage derivative securities provide for the holder to receive interest only, principal only, or interest and principal in amounts that are disproportionate to those payable on the underlying mortgage loans. Payments on mortgage derivative securities are highly sensitive to the rate of prepayments on the underlying mortgage loans. In the event of faster or slower than anticipated prepayments on these mortgage loans, the rates of return on interests in mortgage derivative securities, representing the right to receive interest-only or a disproportionately large amount of interest or interest-only derivatives, would be likely to decline or increase, respectively. Conversely, the rates of return on mortgage derivative securities, representing the right to receive principal-only or a disproportionate amount of principal or principal-only derivatives, would be likely to increase or decrease in the event of faster or slower prepayments, respectively.

We may invest in inverse floaters, a class of CMOs with a coupon rate that resets in the opposite direction from the market rate of interest to which it is indexed, including LIBOR or the 11th District Cost of Funds Index, or COFI. Any rise in the index rate, which can be caused by an increase in interest rates, causes a drop in the coupon rate of an inverse floater, while any drop in the index rate causes an increase in the coupon of an inverse floater. An inverse floater may behave like a leveraged security since its interest rate usually varies by a magnitude much greater than the magnitude of the index rate of interest. The leverage-like characteristics inherent in inverse floaters result in a greater volatility of their market prices.

We may invest in other mortgage derivative securities that may be developed in the future.

Subordinated Interests. We may acquire subordinated interests, which are classes of mortgage-backed securities that are junior to other classes of the same series of mortgage-backed securities in the right to receive payments from the underlying mortgage loans. The subordination may be for all payment failures on the mortgage loans securing or underlying such series of mortgage securities. The subordination will not be limited to those resulting from particular types of risks, including those resulting from war, earthquake or flood, or the bankruptcy of a borrower. The subordination may be for the entire amount of the series of mortgage-related securities or may be limited in amount.

Mortgage Warehouse Participations. We may occasionally acquire mortgage warehouse participations as an additional means of diversifying our sources of income. We anticipate that these investments, together with our investments in other Category III assets, will not in the aggregate exceed 10% of our total mortgage-related assets. These investments are participations in lines of credit to mortgage loan originators secured by recently originated mortgage loans that are in the process of being sold to investors. Our investments in mortgage warehouse participations are limited because they are not qualified REIT assets under the tax code.

Other Mortgage-Related Assets

Mortgage Loans. We also acquire and accumulate mortgage loans as part of our investment strategy until a sufficient quantity has been accumulated for securitization into high-quality mortgage-backed securities in order to enhance their value and liquidity. We anticipate that any mortgage loans that we acquire and do not immediately securitize, together with our investments in other mortgage-related assets that are not Category I assets, will not constitute more than 30% of our total mortgage-related assets at any time. All mortgage loans, if any, will be acquired with the intention of securitizing them into high-credit quality mortgage securities. Despite our intentions, however, we may not be successful in securitizing these mortgage loans. To meet our investment criteria, mortgage loans acquired by us will generally conform to the underwriting guidelines established by Fannie Mae, Freddie Mac or other credit insurers. Applicable banking laws, however, generally require that an appraisal be obtained in connection with the original issuance of mortgage loans by the lending institution, and we do not intend to obtain additional appraisals at the time of acquiring mortgage loans.

Mortgage loans may be originated by or purchased from various suppliers of mortgage-related assets throughout the United States, including savings and loans associations, banks, mortgage bankers and other mortgage lenders. We may acquire mortgage loans directly from originators and from entities holding mortgage loans originated by others. Our board of directors has not established any limits upon the geographic concentration or the credit quality of suppliers of the mortgage-related assets that we acquire.

Other Investments. We may acquire other investments that include equity and debt securities issued by other primarily mortgage-related finance companies, interests in mortgage-related collateralized bond obligations, other subordinated interests in pools of mortgage-related assets, commercial mortgage loans and securities and residential mortgage loans other than high-credit quality mortgage loans. Although we expect that our other investments will be limited to less than 10% of total assets, we have no limit on how much of our stockholders' equity will be allocated to other investments. There may be periods in which other investments represent a large portion of our stockholders' equity.

Competition

When we invest in mortgage-backed securities, mortgage loans and other investment assets, we compete with a variety of institutional investors including other REITs, insurance companies, mutual funds, pension funds, investment banking firms, banks and other financial institutions that invest in the same types of assets. Many of these investors have greater financial resources and access to lower costs of capital than we do.

Employees

As of December 31, 2003, we had twelve employees, nine of whom were part-time.

Company

We were incorporated in Maryland on October 20, 1997 and commenced our operations on March 17, 1998. Our principal executive offices are located at 1299 Ocean Avenue, Suite 250, Santa Monica, California, 90401. Our telephone number is (310) 255-4493 and our fax number is (310) 434-0070.

Information on our Company Website

Our website address is www.anworth.com. We make our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports available free of charge on our website as soon as reasonably practicable after we file these reports with the Securities and Exchange Commission. In addition, we post the following information on our website:

- our corporate code of conduct;
- our corporate governance guidelines;
- charters for our audit committee, nominating and corporate governance committee and compensation committee;

All of the above information is also available in print upon request to our secretary at the address listed under the heading "Company" above.

CERTAIN FEDERAL INCOME TAX CONSIDERATIONS

The following discussion summarizes particular United States federal income tax considerations regarding our qualification and taxation as a REIT and particular United States federal income tax consequences resulting from the acquisition, ownership and disposition of our capital stock. This discussion is based on current law and assumes that we have qualified at all times throughout our existence, and will continue to qualify, as a REIT for United States federal income tax purposes. The tax law upon which this discussion is based could be changed, and any such change could have a retroactive effect. The following discussion is not exhaustive of all possible tax considerations. This summary neither gives a detailed discussion of any state, local or foreign tax considerations nor discusses all of the aspects of United States federal income taxation that may be relevant to you in light of your particular circumstances or to particular types of stockholders which are subject to special tax rules, such as insurance companies, tax-exempt entities, financial institutions or broker-dealers, foreign corporations or partnerships, and persons who are not citizens or residents of the United States, stockholders that hold our stock as a hedge, part of a straddle, conversion transaction or other arrangement involving more than one position, or stockholders whose functional currency is not the United States dollar. This discussion assumes that you will hold our capital stock as a “capital asset,” generally property held for investment, under the tax code.

In reading the federal income tax disclosure below, it should be noted that although Anworth is combined with all of its wholly-owned subsidiaries for financial accounting and reporting purposes, for federal income tax purposes, only Anworth and its wholly-owned subsidiaries, Belvedere Trust Mortgage Corporation, BT Management Holding Corporation and Belvedere Trust Secured Assets Corporation, constitute the REIT. Anworth’s remaining wholly-owned subsidiaries, Belvedere Trust Finance Corporation and BT Residential Funding Corporation, constitute a separate consolidated group subject to regular income taxes.

We urge you to consult with your own tax advisor regarding the specific consequences to you of the purchase, ownership and sale of stock in an entity electing to be taxed as a REIT, including the federal, state, local, foreign and other tax considerations of such purchase, ownership, sale and election and the potential changes in applicable tax laws.

General

Our qualification and taxation as a REIT depends upon our ability to continue to meet the various qualification tests, imposed under the tax code and discussed below, relating to our actual annual operating results, asset diversification, distribution levels and diversity of stock ownership. Accordingly, the actual results of our operations for any particular taxable year may not satisfy these requirements.

We have made an election to be taxed as a REIT under the tax code commencing with our taxable year ended December 31, 1998. We currently expect to continue operating in a manner that will permit us to maintain our qualification as a REIT. All qualification requirements for maintaining our REIT status, however, may not have been or will not continue to be met.

So long as we qualify for taxation as a REIT, we generally will be permitted a deduction for dividends we pay to our stockholders. As a result, we generally will not be required to pay federal corporate income taxes on our net income that is currently distributed to our stockholders. This treatment substantially eliminates the “double taxation” that ordinarily results from investment in a corporation. Double taxation means taxation once at the corporate level when income is earned and once again at the stockholder level when this income is distributed. We will be required to pay federal income tax, however, as follows:

- we will be required to pay tax at regular corporate rates on any undistributed “real estate investment trust taxable income,” including undistributed net capital gain;
- we may be required to pay the “alternative minimum tax” on our items of tax preference; and

- if we have (a) net income from the sale or other disposition of "foreclosure property" which is held primarily for sale to customers in the ordinary course of business, or (b) other non-qualifying income from foreclosure property, we will be required to pay tax at the highest corporate rate on this income. Foreclosure property is generally defined as property acquired through foreclosure or after a default on a loan secured by the property or on a lease of the property.

We will be required to pay a 100% tax on any net income from prohibited transactions. Prohibited transactions are, in general, sales or other taxable dispositions of property, other than foreclosure property, held primarily for sale to customers in the ordinary course of business. Under existing law, whether property is held as inventory or primarily for sale to customers in the ordinary course of a trade or business depends on all the facts and circumstances surrounding the particular transaction.

If we fail to satisfy the 75% gross income test or the 95% gross income test discussed below, but nonetheless maintain our qualification as a REIT because certain other requirements are met, we will be subject to a tax equal to:

- the greater of (i) the amount by which 75% of our gross income exceeds the amount qualifying under the 75% gross income test described below, and (ii) the amount by which 90% of our gross income exceeds the amount qualifying under the 95% gross income test described below, multiplied by a fraction intended to reflect our profitability.

We will be required to pay a 4% excise tax on the excess of the required distribution over the amounts actually distributed if we fail to distribute during each calendar year at least the sum of:

- 85% of our real estate investment trust ordinary income for the year;
- 95% of our real estate investment trust capital gain net income for the year; and
- any undistributed taxable income from prior periods.

This distribution requirement is in addition to, and different from, the distribution requirements discussed below in the section entitled "Annual Distribution Requirements."

If we acquire any asset from a corporation which is or has been taxed as a C corporation under the tax code in a transaction in which the basis of the asset in our hands is determined by reference to the basis of the asset in the hands of the C corporation, and we subsequently recognize gain on the disposition of the asset during the ten-year period beginning on the date on which we acquired the asset, then we will be required to pay tax at the highest regular corporate tax rate on this gain to the extent of the excess of:

- the fair market value of the asset, over
- our adjusted basis in the asset,
- in each case determined as of the date on which we acquired the asset.

A C corporation is generally defined as a corporation required to pay full corporate-level tax. The results described in the preceding paragraph with respect to the recognition of gain will apply unless we make an election under Treasury Regulation Section 1.337(d)-7T(c). If such an election were made, the C corporation would recognize taxable gain or loss as if it had sold the assets we acquired from the C corporation to an unrelated third party at fair market value on the acquisition date.

Finally, we could be subject to an excise tax if our dealings with any taxable REIT subsidiaries (defined below) are not at arm's length.

Requirements for Qualification as a REIT

The tax code defines a REIT as a corporation, trust or association:

- that is managed by one or more trustees or directors;
- that issues transferable shares or transferable certificates to evidence beneficial ownership;
- that would be taxable as a domestic corporation but for tax code Sections 856 through 859;
- that is not a financial institution or an insurance company within the meaning of the tax code;
- that is beneficially owned by 100 or more persons;
- not more than 50% in value of the outstanding stock of which is owned, actually or constructively, by five or fewer individuals, including specified entities, during the last half of each taxable year; and
- that meets other tests, described below, regarding the nature of its income and assets and the amount of its distributions.

The tax code provides that all of the first four conditions stated above must be met during the entire taxable year and that the fifth condition must be met during at least 335 days of a taxable year of twelve months, or during a proportionate part of a taxable year of less than twelve months. The fifth and sixth conditions do not apply until after the first taxable year for which an election is made to be taxed as a REIT.

For purposes of the sixth condition, pension trusts and other specified tax-exempt entities generally are treated as individuals, except that a "look-through" exception generally applies with respect to pension funds.

Stock Ownership Tests

Our stock must be beneficially held by at least 100 persons, the "100 Stockholder Rule," and no more than 50% of the value of our stock may be owned, directly or indirectly, by five or fewer individuals at any time during the last half of the taxable year, the "5/50 Rule." For purposes of the 100 Stockholder Rule only, trusts described in Section 401(a) of the tax code and exempt under Section 501(a) of the tax code, are generally treated as persons. These stock ownership requirements must be satisfied in each taxable year other than the first taxable year for which an election is made to be taxed as a REIT. We are required to solicit information from certain of our record stockholders to verify actual stock ownership levels, and our charter provides for restrictions regarding the transfer of our stock in order to aid in meeting the stock ownership requirements. If we were to fail either of the stock ownership tests, we would generally be disqualified from REIT status.

Income Tests

We must satisfy two gross income requirements annually to maintain our qualification as a REIT:

- We must derive directly or indirectly at least 75% of our gross income, excluding gross income from prohibited transactions, from specified real estate sources, including rental income, interest on obligations secured by mortgages on real property or on interests in real property, gain from the disposition of "qualified real estate assets," i.e., interests in real property, mortgages secured by real property or interests in real property, and some other assets, and income from certain types of temporary investments, or the "75% gross income test"; and
- We must derive at least 95% of our gross income, excluding gross income from prohibited transactions, from (a) the sources of income that satisfy the 75% gross income test, (b) dividends, interest and gain from the sale or disposition of stock or securities, including some interest rate swap and cap agreements, options, futures and forward contracts entered into to hedge variable rate debt incurred to acquire qualified real estate assets, or (c) any combination of the foregoing, or the "95% gross income test".

For purposes of the 75% and 95% gross income tests, a REIT is deemed to have earned a proportionate share of the income earned by any partnership, or any limited liability company treated as a partnership for federal income tax purposes, in which it owns an interest, which share is determined by reference to its capital interest in such entity, and is deemed to have earned the income earned by any qualified REIT subsidiary (in general, a 100% owned corporate subsidiary of a REIT). Our qualified REIT subsidiary, BT Management Holding Corporation, a Delaware corporation, owns a 50% interest in the profits, losses and capital of BT Management Company, L.L.C., a Delaware limited liability company which is taxed as a partnership for federal income tax purposes. Belvedere Trust Mortgage Corporation, or Belvedere Trust, our newly formed, wholly-owned mortgage subsidiary, has entered into a management agreement with BT Management Company, which manages Belvedere Trust's investments and performs administrative services for Belvedere Trust. So long as BT Management Holding Corporation is a qualified REIT subsidiary of ours and it owns an interest in BT Management Company, we will be treated, for federal income tax purposes, as directly owning BT Management Holding Corporation's proportionate share of the assets, liabilities and income of BT Management Company for purposes of determining our compliance with the REIT qualification tests. Certain of BT Management Company's gross income (for example, management fee income under the management agreement with Belvedere Trust) will not be qualifying income under the 75% or 95% tests described above. Accordingly, we may decide to make a taxable REIT subsidiary election for BT Management Holding Corporation in the future if we believe that such nonqualifying income will jeopardize our ability to satisfy the 75% or 95% income tests. If we make a taxable REIT subsidiary election for BT Management Holding Corporation, its proportionate share of BT Management Company's gross income will not be treated as our gross income for purposes of our REIT qualification tests, but BT Management Holding Corporation's taxable income will be subject to corporate level income tax. Any dividends paid to us by BT Management Holding Corporation while it is a taxable REIT subsidiary will be qualifying income for purposes of our satisfaction of the 95% income test, but not the 75% test. Interest earned by a REIT ordinarily does not qualify as income meeting the 75% or 95% gross income tests if the determination of all or some of the amount of interest depends in any way on the income or profits of any person. Interest will not be disqualified from meeting such tests, however, solely by reason of being based on a fixed percentage or percentages of receipts or sales.

If we fail to satisfy one or both of the 75% or 95% gross income tests for any taxable year, we may nevertheless qualify as a REIT for the year if we are entitled to relief under the tax code. Generally, we may avail ourselves of the relief provisions if:

- our failure to meet these tests was due to reasonable cause and not due to willful neglect;
- we attach a schedule of the sources of our income to our federal income tax return; and
- any incorrect information on the schedule was not due to fraud with intent to evade tax.

If we are entitled to avail ourselves of the relief provisions, we will maintain our qualification as a REIT but will be subject to certain penalty taxes as described above. We may not, however, be entitled to the benefit of these relief provisions in all circumstances. If these relief provisions do not apply to a particular set of circumstances, we will not qualify as a REIT.

Asset Tests

At the close of each quarter of our taxable year, we must satisfy four tests relating to the nature and diversification of our assets:

- at least 75% of the value of our total assets must be represented by qualified real estate assets (including mortgage loans and stock in other qualified REITs), cash, cash items and government securities;
- not more than 25% of our total assets may be represented by securities, other than those securities included in the 75% asset test;

- of the investments included in the 25% asset class, the value of any one issuer's securities may not exceed 5% of the value of our total assets, and we generally may not own more than 10% by vote or value of any one issuer's outstanding securities, in each case except with respect to stock of any "taxable REIT subsidiaries"; and
- the value of the securities we own in any taxable REIT subsidiaries may not exceed 20% of the value of our total assets.

For purposes of the asset tests, we will be deemed to own a proportionate share of the assets of any partnership, or any limited liability company treated as a partnership for federal income tax purposes, in which we own an interest, which share is determined by reference to our capital interest in the entity, and will be deemed to own the assets owned by any qualified REIT subsidiary and any other entity that is disregarded for federal income tax purposes.

After initially meeting the asset tests at the close of any quarter, we will not lose our status as a REIT for failure to satisfy the asset tests at the end of a later quarter solely by reason of changes in asset values. If we fail to satisfy the asset tests because we acquire securities or other property during a quarter, we can cure this failure by disposing of sufficient non-qualifying assets within 30 days after the close of that quarter. For this purpose, an increase in our interests in any partnership or limited liability company in which we own an interest will be treated as an acquisition of a portion of the securities or other property owned by that partnership or limited liability company.

Annual Distribution Requirements

To maintain our qualification as a REIT, we are required to distribute dividends, other than capital gain dividends, to our stockholders in an amount at least equal to the sum of:

- 90% of our "REIT taxable income," and
- 90% of our after tax net income, if any, from foreclosure property, minus
- the excess of the sum of specified items of our non-cash income items over 5% of "REIT taxable income," as described below.

For purposes of these distribution requirements, our "REIT taxable income" is computed without regard to the dividends paid deduction (described below) and net capital gain. For purposes of this test, non-cash income means income attributable to leveled stepped rents, certain original issue discounts, certain like-kind exchanges that are later determined to be taxable and income from cancellation of indebtedness. In addition, our taxable income would exceed our net income for financial reporting purposes to the extent that compensation paid to our chief executive officer and our other four highest paid officers exceeds $1,000,000 for any such officer for any calendar year. Since payments under our 2002 Incentive Compensation Plan do not qualify as performance-based compensation under Section 162(m) of the tax code, a portion of the payments made under such plan to certain of such officers would not be deductible for federal income tax purposes under such circumstances. Moreover, if we disposed of any asset we acquired from a corporation which is or has been a C corporation in a transaction in which our basis in the asset is determined by reference to the basis of the asset in the hands of that C corporation and we elected not to recognize gain currently in connection with the acquisition of such asset, we would be required to distribute at least 90% of the after-tax gain, if any, we recognize on a disposition of the asset within the ten-year period following our acquisition of such asset, to the extent that such gain does not exceed the excess of:

- the fair market value of the asset on the date we acquired the asset, over
- our adjusted basis in the asset on the date we acquired the asset.

Only distributions that qualify for the "dividends paid deduction" available to REITs under the tax code are counted in determining whether the distribution requirements are satisfied. We must make these distributions in the taxable year to which they relate, or in the following taxable year if they are declared before we timely file our tax return for that year, paid on or before the first regular dividend payment following the declaration and we elect on our tax return to have a specified dollar amount of such distributions treated as if paid in the prior year. For these and other purposes, dividends declared by us in October, November or December of one taxable year and payable to a stockholder of record on a specific date in any such month shall be treated as both paid by us and received by the stockholder during such taxable year, provided that the dividend is actually paid by us by January 31 of the following taxable year.

In addition, dividends distributed by us must not be preferential. If a dividend is preferential, it will not qualify for the dividends paid deduction. To avoid being preferential, every stockholder of the class of stock to which a distribution is made must be treated the same as every other stockholder of that class, and no class of stock may be treated other than according to its dividend rights as a class.

To the extent that we do not distribute all of our net capital gain, or we distribute at least 90%, but less than 100%, of our "REIT taxable income," as described above, we will be required to pay tax on this undistributed income at regular ordinary and capital gain corporate tax rates.

Failure to Qualify as a REIT

If we fail to qualify for taxation as a REIT in any taxable year, and the relief provisions of the tax code do not apply, we will be required to pay tax, including any applicable alternative minimum tax, on our taxable income in that taxable year and all subsequent taxable years at regular corporate rates. Distributions to stockholders in any year in which we fail to qualify as a REIT will not be deductible by us and we will not be required to distribute any amounts to our stockholders. As a result, we anticipate that our failure to qualify as a REIT would reduce the cash available for distribution to our stockholders. In addition, if we fail to qualify as a REIT, all distributions to stockholders will be taxable at ordinary income rates to the extent of our current and accumulated earnings and profits. In this event, corporate distributees may be eligible for the dividends-received deduction. Unless entitled to relief under specific statutory provisions, we will also be disqualified from taxation as a REIT for the four taxable years following the year in which we lose our qualification.

Qualified REIT Subsidiaries

A qualified REIT subsidiary is any corporation in which we own 100% of such corporation's outstanding stock and for which no election has been made to classify it as a taxable REIT subsidiary. Belvedere Trust Mortgage Corporation, BT Management Holding Corporation and Belvedere Trust Secured Asset Corporation, our wholly-owned subsidiaries, are currently treated as qualified REIT subsidiaries. As such, their assets, liabilities, and income are generally treated as our assets, liabilities, and income for purposes of each of the above REIT qualification tests. Belvedere Trust Mortgage Corporation may elect to be taxed as a REIT in the future, possibly as early as its taxable year ending December 31, 2004. As discussed above, we may decide to make an election to treat BT Management Holding Corporation as a taxable REIT subsidiary at a future date.

Taxable REIT Subsidiaries

A taxable REIT subsidiary is any corporation in which we own stock (directly or indirectly) and which we and such corporation elect to classify as a taxable REIT subsidiary. A taxable REIT subsidiary is not subject to the REIT asset, income, and distribution requirements nor are its assets, liabilities, or income treated as our assets, liabilities, or income for purposes of each of the above REIT qualification tests. Effective January 1, 2004 we elected to treat Belvedere Trust Finance Corporation, a wholly-owned subsidiary of Belvedere Trust Mortgage Corporation, as a taxable REIT subsidiary. Belvedere Finance's wholly-owned subsidiary, BT Residential Funding Corporation, is also a taxable REIT subsidiary.

Except for Belvedere Trust Mortgage Corporation, we generally intend to make a taxable REIT subsidiary election with respect to any other corporation in which we acquire securities constituting more than 10% by vote or value of such corporation and that is not a qualified REIT subsidiary. However, the aggregate value of all of our taxable REIT subsidiaries must be limited to 20% of the total value of the our assets.

We will be subject to a 100% penalty tax on any rent, interest, or other charges that we impose on any taxable REIT subsidiary in excess of an arm's length price for comparable services. We expect that any rents, interest, or other charges imposed on any taxable REIT subsidiary will be at arm's length prices.

We generally expect to derive income from our taxable REIT subsidiaries by way of dividends. Such dividends are not real estate source income for purposes of the 75% income test. Therefore, when aggregated with our non-real estate source income, such dividends must be limited to 25% of our gross income each year. We will monitor the value of our investment in, and the distributions from, our taxable REIT subsidiaries to ensure compliance with all applicable REIT income and asset tests.

Taxable REIT subsidiaries doing business in the United States are generally subject to corporate level tax on their net income and will generally be able to distribute only net after-tax earnings to its stockholders, including us, as dividend distributions. Such dividends may, however, qualify for the new lower income tax rate on dividends described below under "New Tax Legislation."

Taxation of Taxable United States Stockholders

For purposes of the discussion in this Form 10-K, the term "United States stockholder" means a holder of our stock that is, for United States federal income tax purposes:

- a citizen or resident of the United States;
- a corporation, partnership, or other entity created or organized in or under the laws of the United States or of any state thereof or in the District of Columbia, unless Treasury regulations provide otherwise;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust whose administration is subject to the primary supervision of a United States court and which has one or more United States persons who have the authority to control all substantial decisions of the trust.

Distributions Generally

Distributions out of our current or accumulated earnings and profits, other than capital gain dividends, will generally be taxable to United States stockholders as ordinary income. See the discussion below under the heading entitled "New Tax Legislation" for more information about federal income tax rates on dividends. Provided that we continue to qualify as a REIT, dividends paid by us will not be eligible for the dividends received deduction generally available to United States stockholders that are corporations. To the extent that we make distributions in excess of current and accumulated earnings and profits, the distributions will be treated as a tax-free return of capital to each United States stockholder and will reduce the adjusted tax basis which each United States stockholder has in our stock by the amount of the distribution, but not below zero. Distributions in excess of a United States stockholder's adjusted tax basis in its stock will be taxable as capital gain, and will be taxable as long-term capital gain if the stock has been held for more than one year. If we declare a dividend in October, November, or December of any calendar year which is payable to stockholders of record on a specified date in such a month and actually pay the dividend during January of the following calendar year, the dividend is deemed to be paid by us and received by the stockholder on December 31st of the previous year, but only to the extent we have any remaining undistributed earnings and profits (as computed under the tax code) as of December 31st. Any portion of this distribution in excess of our previously undistributed earnings and profits as of December 31 should be treated as a distribution to our stockholders in the following calendar year for United States federal income tax purposes. Stockholders may not include in their own income tax returns any of our net operating losses or capital losses.

Capital Gain Distributions

Distributions designated by us as capital gain dividends will be taxable to United States stockholders as capital gain income. We can designate distributions as capital gain dividends to the extent of our net capital gain for the taxable year of the distribution. This capital gain income will generally be taxable to non-corporate United States stockholders at a 15% or 25% rate based on the characteristics of the asset we sold that produced the gain. See the discussion below under the heading entitled "New Tax Legislation" for more information about federal capital gains tax rates. United States stockholders that are corporations may be required to treat up to 20% of certain capital gain dividends as ordinary income.

Retention of Net Capital Gains

We may elect to retain, rather than distribute as a capital gain dividend, our net capital gains. If we were to make this election, we would pay tax on such retained capital gains. In such a case, our stockholders would generally:

- include their proportionate share of our undistributed net capital gains in their taxable income;
- receive a credit for their proportionate share of the tax paid by us in respect of such net capital gain; and
- increase the adjusted basis of their stock by the difference between the amount of their share of our undistributed net capital gain and their share of the tax paid by us.

Passive Activity Losses, Investment Interest Limitations and Other Considerations of Holding Our Stock

Distributions we make and gains arising from the sale or exchange of our stock by a United States stockholder will not be treated as passive activity income. As a result, United States stockholders will not be able to apply any "passive losses" against income or gains relating to our stock. Distributions by us, to the extent they do not constitute a return of capital, generally will be treated as investment income for purposes of computing the investment interest limitation under the tax code. Further, if we, or a portion of our assets, were to be treated as a taxable mortgage pool, any excess inclusion income that is allocated to you could not be offset by any losses or other deductions you may have.

Dispositions of Stock

A United States stockholder that sells or disposes of our stock will recognize gain or loss for federal income tax purposes in an amount equal to the difference between the amount of cash or the fair market value of any property the stockholder receives on the sale or other disposition and the stockholder's adjusted tax basis in the stock. This gain or loss will be capital gain or loss and will be long-term capital gain or loss if the stockholder has held the stock for more than one year. In general, any loss recognized by a United States stockholder upon the sale or other disposition of our stock that the stockholder has held for six months or less will be treated as long-term capital loss to the extent the stockholder received distributions from us which were required to be treated as long-term capital gains.

Information Reporting and Backup Withholding

We report to our United States stockholders and the IRS the amount of dividends paid during each calendar year and the amount of any tax withheld. Under the backup withholding rules, a stockholder may be subject to backup withholding with respect to dividends paid and redemption proceeds unless the holder is a corporation or comes within other exempt categories and, when required, demonstrates this fact, or provides a taxpayer identification number or social security number, certifying as to no loss of exemption from backup withholding, and otherwise complies with applicable requirements of the backup withholding rules. A United States stockholder that does not provide us with its correct taxpayer identification number or social security number may also be subject to penalties imposed by the IRS. A United States stockholder can meet this requirement by providing us with a correct, properly completed and executed copy of IRS Form W-9 or a substantially similar form. Backup withholding is not an additional tax. Any amount paid as backup withholding will be creditable against the stockholder's income tax liability, if any, and otherwise be refundable. In addition, we may be required to withhold a portion of capital gain distributions made to any stockholders who fail to certify their non-foreign status.

See the discussion below under the heading entitled "New Tax Legislation" for information about federal tax rates for backup withholding.

Taxation of Tax-Exempt Stockholders

The IRS has ruled that amounts distributed as a dividend by a REIT will be treated as a dividend by the recipient and excluded from the calculation of unrelated business taxable income, or UBTI, when received by a tax-exempt entity. Based on that ruling, provided that a tax-exempt stockholder has not held our stock as "debt financed property" within the meaning of the tax code, i.e., property the acquisition or holding of which is financed through a borrowing by the tax-exempt United States stockholder, the stock is not otherwise used in an unrelated trade or business, and we or Belvedere Trust Mortgage Corporation do not hold a residual interest in a real estate mortgage investment conduit, REMIC, that gives rise to "excess inclusion" income, as defined in Section 860E of the tax code, dividend income on our stock and income from the sale of our stock should not be unrelated business taxable income to a tax-exempt stockholder. However, if we or Belvedere Trust Mortgage Corporation were to hold residual interests in a REMIC, or if we or a pool of our assets or Belvedere Trust Mortgage Corporation's assets were to be treated as a "taxable mortgage pool," a portion of the dividends paid to a tax-exempt stockholder may be subject to tax as unrelated business taxable income. Although we do not believe that we, or any portion of our assets or Belvedere Trust Mortgage Corporation's assets, will be treated as a taxable mortgage pool, no assurance can be given that the IRS might not successfully maintain that such a taxable mortgage pool exists.

For tax-exempt stockholders that are social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts, and qualified group legal services plans exempt from federal income taxation under Sections 501(c)(7), (c)(9), (c)(17) and (c)(20) of the tax code, respectively, income from an investment in our stock will constitute unrelated business taxable income unless the organization is able to properly claim a deduction for amounts set aside or placed in reserve for certain purposes so as to offset the income generated by its investment in our stock. Any prospective investors should consult their tax advisors concerning these "set aside" and reserve requirements.

Notwithstanding the above, however, a substantial portion of the dividends you receive may constitute UBTI if we are treated as a "pension-held REIT" and you are a pension trust which:

- is described in Section 401(a) of the tax code; and
- holds more than 10%, by value, of the interests in the REIT.

Tax-exempt pension funds that are described in Section 401(a) of the tax code and exempt from tax under Section 501(a) of the tax code are referred to below as "qualified trusts."

A REIT is a "pension-held REIT" if:

- it would not have qualified as a REIT but for the fact that Section 856(h)(3) of the tax code provides that stock owned by a qualified trust shall be treated, for purposes of the 5/50 Rule, described above, as owned by the beneficiaries of the trust, rather than by the trust itself; and
- either at least one qualified trust holds more than 25%, by value, of the interests in the REIT, or one or more qualified trusts, each of which owns more than 10%, by value, of the interests in the REIT, holds in the aggregate more than 50%, by value, of the interests in the REIT.

The percentage of any REIT dividend treated as unrelated business taxable income is equal to the ratio of:

- the unrelated business taxable income earned by the REIT, less directly related expenses, treating the REIT as if it were a qualified trust and therefore subject to tax on unrelated business taxable income, to
- the total gross income, less directly related expenses, of the REIT.

A de minimis exception applies where the percentage is less than 5% for any year. As a result of the limitations on the transfer and ownership of stock contained in our charter, we do not expect to be classified as a "pension-held REIT."

Taxation of Non-United States Stockholders

The rules governing federal income taxation of "non-United States stockholders" are complex and no attempt will be made herein to provide more than a summary of these rules. "Non-United States stockholders" mean beneficial owners of shares of our stock that are not United States stockholders (as such term is defined in the discussion above under the heading entitled "Taxation of Taxable United States Stockholders").

PROSPECTIVE NON-UNITED STATES STOCKHOLDERS SHOULD CONSULT THEIR TAX ADVISORS TO DETERMINE THE IMPACT OF FOREIGN, FEDERAL, STATE AND LOCAL INCOME TAX LAWS WITH REGARD TO AN INVESTMENT IN OUR STOCK AND OF OUR ELECTION TO BE TAXED AS A REAL ESTATE INVESTMENT TRUST, INCLUDING ANY REPORTING REQUIREMENTS.

Distributions to non-United States stockholders that are not attributable to gain from our sale or exchange of United States real property interests, and that are not designated by us as capital gain dividends or retained capital gains, will be treated as dividends of ordinary income to the extent that they are made out of our current or accumulated earnings and profits. These distributions will generally be subject to a withholding tax equal to 30% of the distribution unless an applicable tax treaty reduces or eliminates that tax. However, if income from an investment in our stock is treated as effectively connected with the non-United States stockholder's conduct of a United States trade or business, the non-United States stockholder generally will be subject to federal income tax at graduated rates in the same manner as United States stockholders are taxed with respect to those distributions, and also may be subject to the 30% branch profits tax in the case of a non-United States stockholder that is a corporation. We expect to withhold tax at the rate of 30% on the gross amount of any distributions made to a non-United States stockholder unless:

- a lower treaty rate applies and any required form, for example IRS Form W-8BEN, evidencing eligibility for that reduced rate is filed by the non-United States stockholder with us; or
- the non-United States stockholder files an IRS Form W-8ECI with us claiming that the distribution is effectively connected income.

Any portion of the dividends paid to non-United States stockholders that is treated as excess inclusion income will not be eligible for exemption from the 30% withholding tax or a reduced treaty rate.

Distributions in excess of our current and accumulated earnings and profits will not be taxable to non-United States stockholders to the extent that these distributions do not exceed the adjusted basis of the stockholder's stock, but rather will reduce the adjusted basis of that stock. To the extent that distributions in excess of current and accumulated earnings and profits exceed the adjusted basis of a non-United States stockholder's stock, these distributions will give rise to tax liability if the non-United States stockholder would otherwise be subject to tax on any gain from the sale or disposition of its stock, as described below. Because it generally cannot be determined at the time a distribution is made whether or not such distribution may be in excess of current and accumulated earnings and profits, the entire amount of any distribution normally will be subject to withholding at the same rate as a dividend. However, amounts so withheld are creditable against

United States tax liability, if any, or refundable by the IRS to the extent the distribution is subsequently determined to be in excess of our current and accumulated earnings and profits. We are also required to withhold 10% of any distribution in excess of our current and accumulated earnings and profits if our stock is a United States real property interest because we are not a domestically controlled REIT, as discussed below. Consequently, although we intend to withhold at a rate of 30% on the entire amount of any distribution, to the extent that we do not do so, any portion of a distribution not subject to withholding at a rate of 30% may be subject to withholding at a rate of 10%.

Distributions attributable to our capital gains which are not attributable to gain from the sale or exchange of a United States real property interest generally will not be subject to income taxation, unless (1) investment in our stock is effectively connected with the non-United States stockholder's U.S. trade or business (or, if an income tax treaty applies, is attributable to a U.S. permanent establishment of the non-United States stockholder), in which case the non-United States stockholder will be subject to the same treatment as United States stockholders with respect to such gain (except that a corporate non-United States stockholder may also be subject to the 30% branch profits tax), or (2) the non-United States stockholder is a non-resident alien individual who is present in the United States for 183 days or more during the taxable year and certain other conditions are satisfied, in which case the non-resident alien individual will be subject to a 30% tax on the individual's capital gains.

For any year in which we qualify as a REIT, distributions that are attributable to gain from the sale or exchange of a United States real property interest, which includes some interests in real property, but generally does not include an interest solely as a creditor in mortgage loans or mortgage-backed securities, will be taxed to a non-United States stockholder under the provisions of the Foreign Investment in Real Property Tax Act of 1980, or FIRPTA. Under FIRPTA, distributions attributable to gain from sales of United States real property interests are taxed to a non-United States stockholder as if that gain were effectively connected with the stockholder's conduct of a United States trade or business. Non-United States stockholders thus would be taxed at the normal capital gain rates applicable to stockholders, subject to applicable alternative minimum tax and a special alternative minimum tax in the case of nonresident alien individuals. Distributions subject to FIRPTA also may be subject to the 30% branch profits tax in the hands of a non-United States corporate stockholder. We are required to withhold 35% of any distribution that we designate (or, if greater, the amount that we could designate) as a capital gains dividend. The amount withheld is creditable against the non-United States stockholder's FIRPTA tax liability.

Gains recognized by a non-United States stockholder upon a sale of our stock generally will not be taxed under FIRPTA if we are a domestically controlled REIT, which is a REIT in which at all times during a specified testing period less than 50% in value of the stock was held directly or indirectly by non-United States stockholders. Because our stock is publicly traded, we cannot assure our investors that we are or will remain a domestically-controlled REIT. Even if we are not a domestically-controlled REIT, however, a non-United States stockholder that owns, actually or constructively, 5% or less of our stock throughout a specified testing period will not recognize taxable gain on the sale of our stock under FIRPTA if the shares are traded on an established securities market.

If gain from the sale of the stock were subject to taxation under FIRPTA, the non-United States stockholder would be subject to the same treatment as United States stockholders with respect to that gain, subject to applicable alternative minimum tax, a special alternative minimum tax in the case of nonresident alien individuals and the possible application of the 30% branch profits tax in the case of non-United States corporations. In addition, the purchaser of the stock could be required to withhold 10% of the purchase price and remit such amount to the IRS.

Gains not subject to FIRPTA will be taxable to a non-United States stockholder if:

- the non-United States stockholder's investment in the stock is effectively connected with a trade or business in the United States, in which case the non-United States stockholder will be subject to the same treatment as United States stockholders with respect to that gain; or
- the non-United States stockholder is a nonresident alien individual who was present in the United States for 183 days or more during the taxable year and other conditions are met, in which case the nonresident alien individual will be subject to a 30% tax on the individual's capital gains.

Information Reporting and Backup Withholding

If the proceeds of a disposition of our stock are paid by or through a U.S. office of a broker-dealer, the payment is generally subject to information reporting and to backup withholding (currently at a rate of 28%) unless the disposing non-United States stockholder certifies as to his name, address and non-U.S. status or otherwise establishes an exemption. Generally, U.S. information reporting and backup withholding will not apply to a payment of disposition proceeds if the payment is made outside the U.S. through a foreign office of a foreign broker-dealer. If the proceeds from a disposition of our stock are paid to or through a foreign office of a U.S. broker-dealer or a non-U.S. office of a foreign broker-dealer that is (i) a "controlled foreign corporation" for federal income tax purposes, (ii) a foreign person 50% or more of whose gross income from all sources for a three-year period was effectively connected with a U.S. trade or business, (iii) a foreign partnership with one or more partners who are U.S. persons and who in the aggregate hold more than 50% of the income or capital interest in the partnership, or (iv) a foreign partnership engaged in the conduct of a trade or business in the United States, then (i) backup withholding will not apply unless the broker-dealer has actual knowledge that the owner is not a foreign stockholder, and (ii) information reporting will not apply if the non-United States stockholder satisfies certification requirements regarding its status as a foreign stockholder.

State, Local and Foreign Taxation

We may be required to pay state, local and foreign taxes in various state, local and foreign jurisdictions, including those in which we transact business or make investments, and our stockholders may be required to pay state, local and foreign taxes in various state, local and foreign jurisdictions, including those in which they reside. Our state, local and foreign tax treatment may not conform to the federal income tax consequences summarized above. In addition, a stockholder's state, local and foreign tax treatment may not conform to the federal income tax consequences summarized above. Consequently, prospective investors should consult their tax advisors regarding the effect of state, local and foreign tax laws on an investment in our stock.

New Tax Legislation

Legislation was recently enacted that, in the case of noncorporate taxpayers, generally reduces the maximum long-term capital gains tax rate for U.S. federal income tax purposes from 20% to 15% (for sales or exchanges occurring on or after May 6, 2003, through taxable years beginning before January 1, 2009) and reduces the maximum U.S. federal income tax rate on most dividends from 38.6% to 15% (for taxable years beginning after December 31, 2002 and before January 1, 2009). The recent legislation also repealed the 18% federal capital gains rate that applied to the sale or exchange of certain assets acquired after December 31, 2000 and certain assets acquired before January 1, 2001 which a taxpayer elected to treat as having been sold and reacquired on the same date. The repeal of the 18% capital gains rate is effective for sales or exchanges occurring on or after May 6, 2003, through taxable years beginning before January 1, 2009. The legislation also reduces the maximum U.S. federal income tax rate imposed on noncorporate taxpayers' ordinary income from 38.6% to 35% for taxable years beginning after December 31, 2002 and before January 1, 2011 and reduces the federal tax rate applicable to backup withholding from 30% to 28% for taxable years beginning after December 31, 2002 and before January 1, 2011.

In general, dividends paid by REITs are not eligible for the new 15% federal income tax rate on dividends. However, subject to certain required holding periods with respect to our stock and certain other restrictions, the 15% federal income tax rate for long-term capital gains and dividends will generally apply to:

- long-term capital gains, if any, recognized on the disposition of our common stock;
- our distributions designated as long-term capital gain dividends attributable to sales or exchanges by us on or after May 6, 2003 (except to the extent attributable to "unrecaptured Section 1250 gain," which continues to be subject to a 25% tax rate);
- our dividends attributable to dividends received by us after December 31, 2002 from taxable corporations (such as taxable REIT subsidiaries); and
- our dividends to the extent attributable to income that was subject to tax at the REIT level (for example, if we distributed less than 100% of our taxable income).

Although the new legislation does not adversely affect the taxation of REITs or dividends paid by REITs, the more favorable treatment of regular corporate dividends could cause investors other than corporations to consider stocks of other dividend-paying corporations to be more attractive relative to stocks of REITs. It is not possible to predict whether this change in perceived relatives value will occur, or what the effect will be on the market price of our stock.

Possible Legislative or Other Actions Affecting Tax Considerations

Prospective investors should recognize that the present U.S. federal income tax treatment of an investment in our stock may be modified by legislative, judicial or administrative action at any time, and that any such action may affect investments and commitments previously made. The rules dealing with U.S. federal income taxation are constantly under review by persons involved in the legislative process and by the Internal Revenue Service and the U.S. Treasury Department, resulting in revisions of regulations and revised interpretations of established concepts as well as statutory changes. Revisions in U.S. federal tax laws and interpretations thereof could adversely affect the tax consequences of an investment in our stock.

Item 2. PROPERTY

We sublease approximately 5,500 square feet of office space in Santa Monica, California under a sublease agreement with Pacific Income Advisers, Inc. that expires in 2012.

Item 3. LEGAL PROCEEDINGS

We are not a party to any material pending legal proceedings.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the quarter ended December 31, 2003.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

Our common stock began trading under the symbol ANH on the New York Stock Exchange on May 9, 2003. Our common stock previously traded under the symbol ANH on the American Stock Exchange. Preceding March 17, 1998, there had been no public market for our common stock. The high and low sale prices for our common stock as reported by the American and New York Stock Exchanges for the periods indicated are as follows:

	2002		2003	
	High	Low	High	Low
First Quarter	$10.12	$ 8.10	$13.13	$11.41
Second Quarter	$14.50	$ 9.60	$15.65	$13.00
Third Quarter	$14.00	$ 8.71	$16.55	$13.70
Fourth Quarter	$13.60	$10.08	$15.19	$12.93

Holders

As of March 4, 2004 there were approximately 1,293 record holders of our common stock. On March 4, 2004, the last reported sale price of our common stock on the New York Stock Exchange was $13.84per share.

Dividends

We pay cash dividends on a quarterly basis. The following table lists the cash dividends declared on each share of our common stock for our most recent two fiscal years. The dividends listed below were based primarily on the board of directors' evaluation of earnings for each listed quarter and were declared on the date indicated.

	Cash Dividends Per Share	Date Dividend Declared
2002		
First Quarter ended March 31, 2002	$0.50	April 18, 2002
Second Quarter ended June 30, 2002	$0.50	July 11, 2002
Third Quarter ended September 30, 2002	$0.50	September 12, 2002
Fourth Quarter ended December 31, 2002(1)	$0.50	December 18, 2002
2003		
First Quarter ended March 31, 2003	$0.45	April 16, 2003
Second Quarter ended June 30, 2003	$0.45	July 17, 2003
Third Quarter ended September 30, 2003	$0.33	October 15, 2003
Fourth Quarter ended December 31, 2003(2)	$0.33	December 17, 2003

(1) The dividend was paid on January 27, 2003 to holders of record as of the close of business on December 31, 2002.

(2) The dividend was paid on January 27, 2004 to holders of record as of the close of business on December 31, 2003.

Equity Compensation Plan Information

The following table provides information as of December 31, 2003 with respect to our common shares issuable under our equity compensation plans:

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders(1)	999,174	$11.51	391,804
Equity compensation plans not approved by security holders(2)	N/A	N/A	N/A
Total	999,174	$11.51	391,804

(1) The Anworth 1997 Stock Option and Awards Plan, as amended, allows for the granting of stock options and other awards to eligible individuals, which generally includes directors, officers, employees and consultants. The plan does not segregate the number of securities remaining available for future issuance among stock options and other awards. The 391,804 shares authorized for future issuance represents the total number of shares available through any combination of stock options or other awards. The share reserve under the plan automatically increases on the first trading day in January each calendar year by an amount equal to two percent (2%) of the total number of shares of our common stock outstanding on the last trading day of December in the prior calendar year, but in no event will this annual increase exceed 300,000 shares and in no event will the total number of common stock in the share reserve (as adjusted for all such annual increases) exceed 3,000,000 shares. See Note 7 to our financial statements.

(2) The Company has not authorized the issuance of its equity securities under any plan not approved by security holders.

Item 6. SELECTED FINANCIAL DATA

The selected financial data as of December 31, 2003 and 2002 and for the years ended December 31, 2003, 2002 and 2001 are derived from our audited financial statements included in this Form 10-K. The selected financial data as of December 31, 2001, 2000 and 1999 and for the years ended December 31, 2000 and 1999 are derived from audited financial statements not included in this Form 10-K. You should read these selected financial data together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited and unaudited financial statements and notes thereto that are included in this Form 10-K beginning on page F-1.

	Year Ended December 31,				
	1999	2000	2001	2002	2003
	(amounts in thousands, except per share data)				
Statement of Operations Data:					
Days in period	365	366	365	365	365
Interest and dividend income	$ 9,501	$10,314	$10,768	$ 66,855	$100,077
Interest expense	(7,892)	(8,674)	(6,363)	(29,576)	(45,661)
Net interest income	1,609	1,640	4,405	37,279	54,416
Gain on sales	—	—	430	4,709	3,497
Expenses	(400)	(379)	(1,129)	(10,318)	(7,718)
Net income	$ 1,209	$ 1,261	$ 3,706	$ 31,670	$ 50,195
Basic net income per average share	$ 0.53	$ 0.54	$ 1.52	$ 1.81	$ 1.52
Diluted net income per average share	$ 0.53	$ 0.54	$ 1.50	$ 1.80	$ 1.52
Dividends declared per share (1)	$ 0.53	$ 0.40	$ 1.64	$ 2.00	$ 1.56
Weighted average shares outstanding	2,290	2,331	2,467	17,591	33,112

	At December 31,				
	1999	2000	2001	2002	2003
	(amounts in thousands, except per share data)				
Balance Sheet Data:					
Mortgage-backed securities, net	$161,488	$134,889	$420,214	$2,430,103	$4,245,853
Total assets	$167,144	$141,834	$424,610	$2,443,884	$4,263,274
Repurchase agreements	$147,690	$121,891	$325,307	$2,153,870	$3,775,691
Total liabilities	$150,612	$123,633	$369,613	$2,178,362	$3,805,877
Stockholders' equity	$ 16,532	$ 18,201	$ 54,997	$ 265,522	$ 457,397
Number of common shares outstanding	2,307	2,350	6,951	25,346	42,707
Book value per share	$ 7.17	$ 7.75	$ 7.91	$ 10.48	$ 10.71

	Year Ended December 31,				
	1999	2000	2001	2002	2003
	(dollar amounts in thousands)				
Other Data (unaudited):					
Average earnings assets	$163,167	$152,289	$167,890	$1,504,350	$3,162,330
Average borrowings	$149,372	$135,631	$152,870	$1,384,887	$2,890,779
Average equity(2)	$ 18,931	$ 19,154	$ 20,279	$ 160,052	$ 367,429
Yield on interest earning assets(3)	5.82%	6.77%	6.41%	4.44%	3.16%
Cost of funds on interest bearing liabilities	5.28%	6.40%	4.16%	2.14%	1.58%
Annualized Financial Ratios (unaudited)(2):					
Net interest margin (net interest income/average assets)	0.99%	1.08%	2.62%	2.48%	1.72%
G&A expenses as a percentage of average assets(4)	0.24%	0.25%	0.32%	0.14%	0.12%
Return on average assets(4)	0.74%	0.83%	2.56%	2.66%	1.71%
Return on average equity(4)	6.38%	6.58%	21.22%	24.96%	14.72%

(1) On September 26, 2000, our board of directors announced that, beginning with the third quarter of 2000, dividends would generally be declared after each quarter-end rather than during the applicable quarter.
(2) Average equity excludes fair value adjustment for mortgage-backed securities.
(3) Excludes gain on sale of securities.
(4) Excludes incentive fees paid to our management company, incentive compensation paid to our employees and the acquisition costs of $3,475,000 paid for our external manager in 2002.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our financial statements included elsewhere in this Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors including those set forth under "Risk Factors" herein.

General

We were formed in October 1997 to invest primarily in mortgage-related assets, including mortgage pass-through certificates, collateralized mortgage obligations, mortgage loans and other securities representing interests in, or obligations backed by, pools of mortgage loans which can be readily financed. We commenced operations on March 17, 1998 upon the closing of our initial public offering. Our principal business objective is to generate net income for distribution to stockholders based upon the spread between the interest income on our mortgage-backed securities and mortgage loans and the costs of borrowing to finance our acquisition of mortgage-backed securities and mortgage loans.

We are organized for tax purposes as a REIT. Accordingly, we generally distribute substantially all of our earnings to stockholders without paying federal or state income tax at the corporate level on the distributed earnings. As of December 31, 2003, our qualified REIT assets (real estate assets, as defined in the tax code, cash and cash items and government securities) were greater than 90% of our total assets, as compared to the tax code requirement that at least 75% of our total assets must be qualified REIT assets. Greater than 99% of our 2003 revenue qualifies for both the 75% source of income test and the 95% source of income test under the REIT rules. We believe we met all REIT requirements regarding the ownership of our common stock and the distributions of our net income. Therefore, we believe that we continue to qualify as a REIT under the provisions of the tax code.

From the time of our inception through June 13, 2002, we were externally managed by Anworth Mortgage Advisory Company, or the manager, pursuant to a management agreement. As an externally managed company, we had no employees of our own and relied on the manager to conduct our business and operations. On June 13, 2002, the manager merged with and into our company. The merger was approved by a special committee consisting solely of our independent directors, our full board of directors and the vote of a majority of our stockholders. Upon the closing of the merger, the management agreement terminated.

The market value of our common stock issued, valued as of the consummation of the merger, in excess of the fair value of the net tangible assets acquired, has been accounted for as a non-cash charge to operating income. Since we did not acquire tangible net assets from the manager in the merger, the non-cash charge equaled the value of the consideration paid in the merger, which was approximately $3.2 million. This non-cash charge did not reduce our taxable income, of which at least 90% must be paid as dividends to stockholders to maintain our status as a REIT. It did, however, reduce our reportable net income. In addition, we incurred $295,000 in merger-related expenses.

Over the past year, the continued decline in the general level of interest rates has had a materially positive impact on our cost of financing. As a result of the interest rate reductions by the Federal Reserve Board, the one-month LIBOR rate has declined from 1.38% as of December 31, 2002 to 1.12% as of December 31, 2003. This decline in short-term interest rates has reduced the rates at which we borrow funds to finance our portfolio holdings. Our cost of financing has declined from 2.14% for the year ended December 31, 2002 to 1.58% for the year ended December 31, 2003. During the same time period, our yield on interest earning assets decreased from 4.44% to 3.16%, effectively reducing our spread from 2.30% to 1.58%.

On November 3, 2003, we formed a wholly-owned subsidiary called Belvedere Trust Mortgage Corporation, or Belvedere Trust. Belvedere Trust was formed as a qualified REIT subsidiary to acquire and own mortgage loans, with a focus on the high credit-quality jumbo adjustable rate, hybrid and second-lien mortgage markets. Belvedere Trust was also formed with the intent of securitizing the mortgage loans it acquires and selling mortgage-backed securities in the capital markets. We have made an initial investment of $25 million in Belvedere Trust to capitalize its initial mortgage operations. We have also formed BT Management Company, L.L.C., or BT Management, a Delaware limited liability company that is owned 50% by us, 27.5% by Claus Lund, the Chief Executive Officer of Belvedere Trust, 17.5% by Russell J. Thompson, the Chief Financial Officer of Belvedere Trust, and 5% by Lloyd McAdams, our Chairman and Chief Executive Officer. BT Management has entered into a management agreement with Belvedere Trust pursuant to which BT Management will manage the day-to-day operations of Belvedere Trust in exchange for an annual base management fee and a quarterly incentive fee. We believe that over time Belvedere Trust's business will become an important part of our overall operations and business strategy.

Results of Operations

Years Ended December 31, 2003 and 2002

For the year ended December 31, 2003, our net income was $50,195,000, or $1.52 per diluted share, based on an average of 33,112,059 shares outstanding. For the year ended December 31, 2002, our net income was $31,670,000, or $1.80 per diluted share, based on an average of 17,590,888 shares outstanding. The decrease in our earnings per share in 2003 over 2002 was due to an increase in premium amortization expense. The increase in premium amortization expense resulted from an increase in the constant prepayment rate ("CPR") of our mortgage-backed securities, resulting primarily from an extremely high volume of mortgage refinancings driven by the record-low interest rates. These refinancings occurred mainly in the second quarter, and their net effect was realized through the increase in premium amortization expense in the third quarter.

The table below shows the approximate constant prepayment rate of our mortgage assets:

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
2002	33%	33%	28%	33%
2003	35%	40%	46%	32%

Net interest income for the year ended December 31, 2003 totaled $54,416,000, or 54.4% of total interest income, compared to $37,279,000, or 55.8% of total interest income, for the year ended December 31, 2002. Net interest income is comprised of the interest income earned on mortgage investments less interest expense from borrowings. As a result of investing the proceeds of our common stock offerings, our assets and borrowings have increased significantly from last year. This has resulted in a large increase in our income and interest expense in 2003 compared to 2002. Also, during the year ended December 31, 2003, we realized a net gain on the sale of assets in the amount of $3,497,000, or 3.5% of total interest income, compared to $4,708,605, or 7.0% of total interest income, during the year ended December 31, 2002.

For the year ended December 31, 2003, our operating expenses increased to $7,718,000, or 7.7% of total interest income, from $4,701,227, excluding acquisition costs and fees paid to external management company, or 7.0% of total interest income, for the year ended December 31, 2002. This increase was due primarily to the internalization of the management of our company and increased expenses associated with compensation paid under our incentive compensation plan.

Our return on average equity was 13.66% for the year ended December 31, 2003, compared to 19.79% for the year ended December 31, 2002.

Years Ended December 31, 2002 and 2001

For the year ended December 31, 2002, our net income was $31,670,000, or $1.80 per diluted share, based on an average of 17,590,888 shares outstanding. For the year ended December 31, 2001, our net income was $3,706,000, or $1.50 per diluted share, based on an average of 2,466,817 shares outstanding.

Net interest income for the year ended December 31, 2002 totaled $37,279,000, or 55.8% of total interest income, compared to $4,405,000, or 40.9% of total interest income, for the year ended December 31, 2001. Also, during the year ended December 31, 2002, we realized a net gain on the sale of assets in the amount of $4,708,605, or 7.0% of total interest income, compared to $430,000, or 4.0% of total interest income, during the year ended December 31, 2001.

For the year ended December 31, 2002, our operating expenses increased to $4,701,227, or 7.0% of total interest income, from $323,000, or 3.0% of total interest income, for the year ended December 31, 2001. This increase was due primarily to increased expenses associated with compensation paid under our incentive compensation plan resulting from increased earnings.

Our return on average equity was 19.79% for the year ended December 31, 2002, compared to 18.28% for the year ended December 31, 2001.

We paid the manager an incentive fee of $1,741,393 for the period between January 1, 2002 and June 13, 2002, the date of our merger. In 2001, the manager earned an incentive fee of $598,000. We paid incentive compensation under our 2002 Incentive Compensation Plan of $3,054,911 for the period between June 13, 2002, the date of our merger, and December 31, 2002.

Return on Average Equity(1)

The table below shows the components of return on average equity(2):

	Net Interest Income/Equity	G&A Expense(3)/ Equity	Net Income(3)(4)/ Equity
For the year ended December 31, 2003	14.81%	1.04%	13.77%
For the year ended December 31, 2002	23.29%	1.28%	22.01%
For the year ended December 31, 2001	21.72%	2.62%	19.10%

(1) The table above presents other than GAAP ratios and is provided by management to present a consistent application of return on average equity ratios with those provided in previous filings.
(2) Average equity excludes unrealized gain (loss) on available-for-sale securities.
(3) Excludes incentive fees paid to our management company, incentive compensation paid to our employees and the costs to acquire our external manager.
(4) Excludes gain on sales of securities.

Average Cash Equivalents and Average Mortgage Assets

The table below shows our average balances of cash equivalents and mortgage assets, the annualized yields earned on each type of earning assets, the yield on average earning assets and dividend and interest income:

	Average Cash Equivalents	Average Amortized Cost of Mortgage Assets	Average Earning Assets	Yield on Average Cash Equivalents	Yield on Average Amortized Cost of Mortgage Assets	Yield on Average Earning Assets	Dividend and Interest Income
	(dollar amount in thousands)						
For the year ended December 31, 2003	$4,833	$3,157,497	$3,162,330	0.89%	3.17%	3.16%	$100,077
For the year ended December 31, 2002	$8,560	$1,495,790	$1,504,350	1.88%	4.47%	4.44%	$ 66,855
For the year ended December 31, 2001	$3,444	$ 164,446	$ 167,890	4.00%	6.46%	6.41%	$ 10,768

Average Borrowed Funds and Annualized Average Cost of Funds

The table below shows our average borrowed funds and annualized average cost of funds:

	Average Borrowed Funds	Interest Expense	Average Cost of Funds
For the year ended Dec. 31, 2003	$2,890,779	$45,661	1.58%
For the year ended Dec. 31, 2002	$1,384,887	$29,576	2.14%
For the year ended Dec. 31, 2001	$ 152,870	$ 6,363	4.16%

Operating Expenses/Total Assets

The table below shows operating expenses as a percent of total assets:

	Management Fee & Other Expenses (1)/ Total Assets	Incentive Fee and Incentive Compensation/ Total Assets	Total G&A Expenses(1)/ Total Assets
For the year ended December 31, 2003	0.09%	0.09%	0.18%
For the year ended December 31, 2002	0.08%	0.20%	0.28%
For the year ended December 31, 2001	0.13%	0.14%	0.27%

(1) Excludes costs to acquire our external manager of $3,475,000.

Financial Condition

At December 31, 2003, we held total assets of $4,263 million, consisting primarily of $3,844 million of adjustable-rate mortgage-backed securities and $402 million of fixed-rate mortgage-backed securities. This balance sheet size represents an approximate 175% increase over our balance sheet size at December 31, 2002. At December 31, 2003, we were well within our asset allocation guidelines, with approximately 100% of total assets consisting of mortgage-backed securities guaranteed by an agency of the United States government such as Fannie Mae, Freddie Mac or Ginnie Mae. Of the adjustable-rate mortgage-backed securities owned by us, 28.7%, which are calculated based on amortized cost, were adjustable-rate pass-through certificates that reset at least once a year. The remaining 71.3% were 3/1 and 5/1 hybrid adjustable-rate mortgage-backed securities. Hybrid adjustable-rate mortgage-backed securities have an initial interest rate that is fixed for a certain period, usually three to five years, and then adjust annually for the remainder of the term of the loan.

Mortgage-Backed Securities by Type of Issuer

The following table presents a schedule of mortgage-backed securities owned at December 31, 2003 and December 31, 2002, classified by type of issuer:

	At December 31, 2003		At December 31, 2002	
	Fair Value	Portfolio Percentage	Fair Value	Portfolio Percentage
	(dollar amounts in thousands)			
FNMA	$2,984,941	70.3%	$1,631,425	67.1%
FHLMC	1,059,517	25.0%	651,645	26.8%
GNMA	201,395	4.7%	147,033	6.1%
Total Portfolio	$4,245,853	100.0%	$2,430,103	100.0%

Mortgage-Backed Securities by Interest Rate Index

The following table classifies our portfolio of mortgage-backed securities owned at December 31, 2003 and December 31, 2002 by type of interest rate index (with respect to our hybrid ARMs, the fair value of these securities appears on the line associated with the index based on which the security will eventually reset once the initial fixed interest rate period has expired):

	December 31, 2003		December 31, 2002	
	Fair Value	Portfolio Percentage	Fair Value	Portfolio Percentage
	(dollar amounts in thousands)			
One-month LIBOR	$ 30,184	0.7%	$ 77,055	3.2%
Six-month LIBOR	17,131	0.4%	17,614	0.7%
One-year LIBOR	1,439,064	33.9%	613,325	25.2%
Six-month Certificate of Deposit	8,831	0.2%	1,239	0.1%
Six-month Constant Maturity Treasury	1,874	0%	—	—
One-year Constant Maturity Treasury	2,241,179	52.8%	1,370,783	56.4%
Cost of Funds Index	105,854	2.5%	11,313	0.5%
Fixed rate	401,736	9.5%	338,774	13.9%
Total Portfolio	$4,245,853	100.0%	$2,430,103	100.0%

Our mortgage-backed securities portfolio had a weighted average coupon of 4.3% at December 31, 2003. The weighted average one-month constant prepayment rates of our mortgage-backed securities portfolio were 36.3%, 32.9% and 25.4%, respectively, for the months of October, November and December 2003. At December 31, 2003, the unamortized net premium paid for our mortgage-backed securities was $112 million. Our mortgage-backed securities had a weighted average coupon of 5.21% at December 31, 2002. The weighted average one-month constant prepayment rates of our mortgage-backed securities portfolio were 29.3%, 36.0% and 34.6%, respectively, for the months of October, November and December 2002. At December 31, 2002, the unamortized net premium paid for our mortgage-backed securities was $60.8 million.

We analyze our mortgage-backed securities for the extent to which prepayments impact the yield of the securities. When actual prepayments exceed expectations, we amortize the premiums paid on mortgage assets over a shorter time period, resulting in a reduced yield to maturity on our mortgage assets. Conversely, if actual prepayments are less than the assumed constant prepayment rate, the premium would be amortized over a longer time period, resulting in a higher yield to maturity. We monitor our prepayment expectations versus our actual prepayment experience on a monthly basis in order to adjust the amortization of the net premium.

As of December 31, 2003, the fair value of our portfolio of mortgage-related assets classified as available-for-sale was reduced by $21.93 million, or 0.52% less than the amortized cost of our portfolio. As of December 31, 2002, the fair value of our portfolio of mortgage-related assets classified as available-for-sale was $14.86 million, or 0.61% more than the amortized cost of our portfolio.

Hedging

We periodically enter into derivative transactions, in the form of forward purchase commitments, which are intended to hedge our exposure to rising rates on funds borrowed to finance our investments in securities. We have designated these transactions as cash flow hedges. We also enter into derivative transactions, also in the form of forward purchase commitments, which are not designated as hedges. Other than these types of transactions, we have not entered into any hedging agreements to date.

As part of our asset/liability management policy, we may enter into hedging agreements such as interest rate caps, floors or swaps. These agreements would be entered into to try to reduce interest rate risk and would be designed to provide us with income and capital appreciation in the event of certain changes in interest rates. We review the need for hedging transactions on a regular basis consistent with our capital investment policy.

During the year ended December 31, 2003, we entered into various mortgage-backed securities transactions where we agreed to take delivery of the securities more than one month from the trade date. As directed by accounting rules for these types of extended delivery transactions, the economic benefit or cost that occurs between the trade date and the delivery date are designated as a derivative gain or loss. We were not a party to any derivative transactions during the year ended December 31, 2003.

Liquidity and Capital Resources

Our primary source of funds consists of repurchase agreements, which totaled $3,776 million at December 31, 2003. Our other significant source of funds for the year ended December 31, 2003 consisted of payments of principal and interest from our mortgage securities portfolio in the amount of $1,497.6 million. As of December 31, 2003, we had raised approximately $88.4 million in capital under our amended Dividend Reinvestment and Direct Stock Purchase Plan, $55.5 million of which was raised in 2003.

In the future, we expect that our primary sources of funds will consist of borrowed funds under repurchase agreement transactions with one- to twelve-month maturities and of monthly payments of principal and interest on our mortgage-backed securities portfolio. Our liquid assets generally consist of unpledged mortgage-backed securities, cash and cash equivalents.

Our borrowings had a weighted average interest cost during the year ended December 31, 2003 of 1.58% compared with 2.14% for the year ended December 31, 2002. As of December 31, 2003, all of our repurchase agreements were fixed-rate term repurchase agreements with original maturities ranging from one to twenty-four months. On December 31, 2003, we had borrowing arrangements with seventeen different financial institutions and had borrowed funds under repurchase agreements with fifteen of these firms. Because we borrow money based on the fair value of our mortgage-backed securities and because increases in short-term interest rates can negatively impact the valuation of mortgage-backed securities, our borrowing ability could be limited and lenders may initiate margin calls in the event short-term interest rates increase or the value of our mortgage-backed securities declines for other reasons. During the year ended December 31, 2003, we had adequate cash flow, liquid assets and unpledged collateral with which to meet our margin requirements during the period.

From time to time, we raise additional equity dependent upon market conditions and other factors. We intend to raise additional equity through the issuance of capital stock as described in our registration statement on Form S-3 that was initially declared effective by the Securities and Exchange Commission in September 2002. The registration statement was subsequently amended and the post-effective amendment was declared effective in January 2003. We completed public offerings pursuant to that registration statement in May 2003 and August 2003 that raised an aggregate of approximately $113.6 million in net proceeds.

In December 2002, we entered into a sales agreement with Cantor Fitzgerald & Co., or Cantor, to sell up to 4.8 million shares of our common stock from time to time through a controlled equity offering program under which Cantor acts as sales agent. Sales of the shares have been made on the American Stock Exchange and more recently on the New York Stock Exchange by means of ordinary brokers' transactions at market prices and through privately negotiated transactions. Prior to termination of the program on November 24, 2003, we sold all 4.8 million shares under the program, which provided net proceeds to us of approximately $63.25 million. The sales agent received an aggregate of approximately $1.1 million, which represents a commission of 1.8% on the gross sales price per share under the sales agreement.

Stockholders' Equity

We use available-for-sale treatment for our mortgage-backed securities. These assets are carried on the balance sheet at fair value rather than historical amortized cost. Based upon such available-for-sale treatment, our equity base at December 31, 2003 was $457.4 million, or $10.71 per share.

With our available-for-sale accounting treatment, unrealized fluctuations in fair values of assets do not impact GAAP income or taxable income but rather are reflected on the balance sheet by changing the carrying value of the asset and reflecting the change in stockholders' equity under "Accumulated other comprehensive income, unrealized gain (loss) on available-for-sale securities."

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.

Unrealized changes in the fair value of mortgage-backed securities have one significant and direct effect on our potential earnings and dividends: positive mark-to-market changes will increase our equity base and allow us to increase our borrowing capacity while negative changes will 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 reduce our liquidity, requiring us to sell assets with the likely result of realized losses upon sale. "Accumulated other comprehensive income, unrealized loss on available-for-sale securities" was $21.9 million, or 0.52% of the amortized cost of mortgage-backed securities at December 31, 2003.

Critical Accounting Policies

Management has the obligation to ensure that its policies and methodologies are in accordance with generally accepted accounting principles. During 2003, management reviewed and evaluated its critical accounting policies and believes them to be appropriate.

The preparation of financial statements in accordance with generally accepted accounting principles requires management to makes estimates and assumptions in certain circumstances that affect amounts reported in the accompanying financial statements. In preparing these financial statements, management has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. We do not believe that there is a great likelihood that materially different amounts would be reported related to accounting policies described below. Nevertheless, application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates.

Our accounting policies are described in Note 1 to our financial statements. Management believes the more significant of these to be as follows:

Revenue Recognition

The most significant source of our revenue is derived from our investments in mortgage-backed securities. We reflect income using the effective yield method, which, through amortization of premiums and accretion of discounts, recognizes periodic income over the term of the investment on a constant yield basis, as adjusted for actual prepayment activity. Management believes our revenue recognition policies are appropriate to reflect the substance of the underlying transactions.

Interest income on our mortgage-backed securities is accrued based on the actual coupon rate and the outstanding principle amount of the underlying mortgages. Premiums and discounts are amortized or accreted into interest income over the lives of the securities using the effective interest yield method adjusted for the effects of estimated prepayments based on the Statement of Financial Accounting Standards, or SFAS, No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases—an amendment of FASB Statements No. 13, 60, and 65 and a rescission of FASB Statement No. 17. Our policy for estimating prepayments speeds for calculating the effective yield is to evaluate historical performance, street consensus prepayment speeds and current market conditions. If our estimate of prepayments is incorrect, we may be required to make an adjustment to the amortization or accretion of premiums and discounts that would have an impact on future income.

Valuation of Investment Securities

We carry our investment securities on our balance sheet at fair value. The fair values of our mortgage-backed securities are generally based on market prices provided by certain dealers who make markets in such securities. The fair values of other marketable securities are obtained from the last reported sale of such securities on its principal exchange or, if no representative sale is reported, the mean between the closing bid and ask prices. If, in the opinion of management, one or more securities prices reported to us are not reliable or unavailable, management estimates the fair value based on characteristics of the security it receives from the issuer and available market information. The fair values reported reflect estimates and may not necessarily be indicative of the amounts we could realize in a current market exchange.

Income Taxes

Our financial results do not reflect provisions for current or deferred income taxes. Management believes that we have and intend to continue to operate in a manner that will continue to allow us to be taxed as a REIT and as a result does not expect to pay substantial corporate level taxes. Many of these requirements, however, are highly technical and complex. If we were to fail to meet these requirements, we would be subject to federal income tax.

Off-Balance Sheet and Contractual Arrangements

Management has addressed the issues of off-balance sheet contractual obligations and has determined that all such obligations are reflected on the financial statements. In addition, management has also determined that all reverse repurchase agreements and employment obligations under contract and lease commitments are also fully disclosed on the financial statements.

RISK FACTORS

An investment in our stock involves a number of risks. Before making a decision to purchase our securities, you should carefully consider all of the risks described in this annual report. If any of the risks discussed in this annual report actually occur, our business, financial condition and results of operations could be materially adversely affected. If this were to occur, the trading price of our securities could decline significantly and you may lose all or part of your investment.

Risk Related to Our Business

Interest rate mismatches between our adjustable-rate mortgage-backed securities and our borrowings used to fund our purchases of the assets may reduce our income during periods of changing interest rates.

We fund most of our acquisitions of adjustable-rate mortgage-backed securities with borrowings that have interest rates based on indices and repricing terms similar to, but of shorter maturities than, the interest rate indices and repricing terms of our mortgage-backed securities. Accordingly, if short-term interest rates increase, this may adversely affect our profitability.

Most of the mortgage-backed securities we acquire are adjustable-rate securities. This means that their interest rates may vary over time based upon changes in a short-term interest rate index. Therefore, in most cases the interest rate indices and repricing terms of the mortgage-backed securities that we acquire and their funding sources will not be identical, thereby creating an interest rate mismatch between assets and liabilities. While the historical spread between relevant short-term interest rate indices has been relatively stable, there have been periods when the spread between these indices was volatile. During periods of changing interest rates, these mismatches could reduce our net income, dividend yield and the market price of our stock.

The interest rates on our borrowings generally adjust more frequently than the interest rates on our adjustable-rate mortgage-backed securities. For example, on December 31, 2003, our adjustable-rate mortgage-backed securities had a weighted average term to next rate adjustment of approximately 22 months, while our borrowings had a weighted average term to next rate adjustment of 268 days. Accordingly, in a period of rising interest rates, we could experience a decrease in net income or a net loss because the interest rates on our borrowings adjust faster than the interest rates on our adjustable-rate mortgage-backed securities.

We may experience reduced net interest income from holding fixed-rate investments during periods of rising interest rates.

We generally fund our acquisition of fixed-rate mortgage-backed securities with short-term borrowings. During periods of rising interest rates, our costs associated with borrowings used to fund acquisition of fixed-rate assets are subject to increases while the income we earn from these assets remains substantially fixed. This reduces or could eliminate the net interest spread between the fixed-rate mortgage-backed securities that we purchase and our borrowings used to purchase them, which could lower our net interest income or cause us to suffer a loss. On December 31, 2003, 9.5% of our mortgage-backed securities were fixed-rate securities.

Increased levels of prepayments from mortgage-backed securities may decrease our net interest income.

Pools of mortgage loans underlie the mortgage-backed securities that we acquire. We generally receive payments from principal payments that are made on these underlying mortgage loans. When borrowers prepay their mortgage loans faster than expected, this results in prepayments that are faster than expected on the mortgage-backed securities. Faster than expected prepayments could adversely affect our profitability, including in the following ways:

- We usually purchase mortgage-backed securities that have a higher interest rate than the market interest rate at the time. In exchange for this higher interest rate, we pay a premium over the par value to acquire the security. In accordance with accounting rules, we amortize this premium over the term of the mortgage-backed security. If the mortgage-backed security is prepaid in whole or in part prior to its maturity date, however, we expense the premium that was prepaid at the time of the prepayment. On December 31, 2003, approximately 99.9% of our mortgage-backed securities were acquired at a premium.

- We anticipate that a substantial portion of our adjustable-rate mortgage-backed securities may bear interest rates that are lower than their fully indexed rates, which are equivalent to the applicable index rate plus a margin. If an adjustable-rate mortgage-backed security is prepaid prior to or soon after the time of adjustment to a fully-indexed rate, we will have held that mortgage-backed security while it was less profitable and lost the opportunity to receive interest at the fully indexed rate over the remainder of its expected life.
- If we are unable to acquire new mortgage-backed securities similar to the prepaid mortgage-backed securities, our financial condition, results of operation and cash flow would suffer.

Prepayment rates generally increase when interest rates fall and decrease when interest rates rise, but changes in prepayment rates are difficult to predict. Prepayment rates also may be affected by conditions in the housing and financial markets, general economic conditions, seasonal periods and the relative interest rates on fixed-rate and adjustable-rate mortgage loans.

While we seek to minimize prepayment risk to the extent practical, in selecting investments we must balance prepayment risk against other risks and the potential returns of each investment. No strategy can completely insulate us from prepayment risk.

Our officers devote a portion of their time to another company in capacities that could create conflicts of interest that may adversely affect our investment opportunities; this lack of a full-time commitment could also adversely affect our operating results.

Lloyd McAdams, Joseph E. McAdams, Evangelos Karagiannis, Bistra Pashamova and other of our officers and employees are officers and employees of Pacific Income Advisers, Inc., or PIA, where they devote a portion of their time. These officers and employees are under no contractual obligations mandating minimum amounts of time to be devoted to our company. In addition, a trust controlled by Lloyd McAdams and Heather U. Baines is the principal stockholder of PIA.

These officers and employees are involved in investing both our assets and approximately $4.3 billion in mortgage-backed securities and other fixed income assets for institutional clients and individual investors through PIA. These multiple responsibilities and ownerships may create conflicts of interest if these officers and employees of our company are presented with opportunities that may benefit both us and the clients of PIA. These officers allocate investments among our portfolio and the clients of PIA by determining the entity or account for which the investment is most suitable. In making this determination, these officers consider the investment strategy and guidelines of each entity or account with respect to acquisition of assets, leverage, liquidity and other factors that our officers determine appropriate. These officers, however, have no obligation to make any specific investment opportunities available to us and the above mentioned conflicts of interest may result in decisions or allocations of securities that are not in our best interests.

Several of our officers and employees are also directors, officers and managers of BT Management Company, L.L.C., the company that will manage the day-to-day operations of Belvedere Trust Mortgage Corporation, our newly formed mortgage loan subsidiary, and Lloyd McAdams is also an owner and officer of Syndicated Capital, a registered broker-dealer. Our officers service to PIA, BT Management Company, L.L.C. and Syndicated Capital allow them to spend only part of their time and effort managing our company as they are required to devote a portion of their time and effort to the management of other companies and this may adversely affect our overall management and operating results.

We may incur increased borrowing costs related to repurchase agreements and that would adversely affect our profitability.

Currently, all of our borrowings are collateralized borrowings in the form of repurchase agreements. If the interest rates on these repurchase agreements increase, that would adversely affect our profitability.

Our borrowing costs under repurchase agreements generally correspond to short-term interest rates such as LIBOR or a short-term Treasury index, plus or minus a margin. The margins on these borrowings over or under short-term interest rates may vary depending upon:

- the movement of interest rates;
- the availability of financing in the market; and
- the value and liquidity of our mortgage-backed securities.

Interest rate caps on our adjustable-rate mortgage-backed securities may reduce our income or cause us to suffer a loss during periods of rising interest rates.

Our adjustable-rate mortgage-backed securities are typically subject to periodic and lifetime interest rate caps. Periodic interest rate caps limit the amount an interest rate can increase during any given period. Lifetime interest rate caps limit the amount an interest rate can increase through maturity of a mortgage-backed security. Our borrowings are not subject to similar restrictions. Accordingly, in a period of rapidly increasing interest rates, the interest rates paid on our borrowings could increase without limitation while interest rate caps would limit the interest rates on our adjustable-rate mortgage-backed securities. This problem is magnified for our adjustable-rate mortgage-backed securities that are not fully indexed. Further, some adjustable-rate mortgage-backed securities may be subject to periodic payment caps that result in a portion of the interest being deferred and added to the principal outstanding. As a result, we could receive less cash income on adjustable-rate mortgage-backed securities than we need to pay interest on our related borrowings. These factors could lower our net interest income or cause us to suffer a loss during periods of rising interest rates. On December 31, 2003, approximately 90.5% of our mortgage-backed securities were adjustable-rate securities.

Our leveraging strategy increases the risks of our operations.

We generally borrow between eight and twelve times the amount of our equity, although our borrowings may at times be above or below this amount. We incur this leverage by borrowing against a substantial portion of the market value of our mortgage-backed securities. Use of leverage can enhance our investment returns. Leverage, however, also increases risks. In the following ways, the use of leverage increases our risk of loss and may reduce our net income by increasing the risks associated with other risk factors, including a decline in the market value of our mortgage-backed securities or a default of a mortgage-related asset:

- The use of leverage increases our risk of loss resulting from various factors including rising interest rates, increased interest rate volatility, downturns in the economy and reductions in the availability of financing or deteriorations in the conditions of any of our mortgage-related assets.
- A majority of our borrowings are secured by our mortgage-backed securities, generally under repurchase agreements. A decline in the market value of the mortgage-backed securities used to secure these debt obligations could limit our ability to borrow or result in lenders requiring us to pledge additional collateral to secure our borrowings. In that situation, we could be required to sell mortgage-backed securities under adverse market conditions in order to obtain the additional collateral required by the lender. If these sales are made at prices lower than the carrying value of the mortgage-backed securities, we would experience losses.
- A default of a mortgage-related asset that constitutes collateral for a loan could also result in an involuntary liquidation of the mortgage-related asset. This would result in a loss to us of the difference

between the value of the mortgage-related asset upon liquidation and the amount borrowed against the mortgage-related asset.

- To the extent we are compelled to liquidate qualified REIT assets to repay debts, our compliance with the REIT rules regarding our assets and our sources of income could be affected, which could jeopardize our status as a REIT. Losing our REIT status would cause us to lose tax advantages applicable to REITs and may decrease our overall profitability and distributions to our stockholders.

We have not extensively used derivatives to mitigate our interest rate and prepayment risks and this leaves us exposed to certain risks.

Our policies permit us to enter into interest rate swaps, caps and floors and other derivative transactions to help us reduce our interest rate and prepayment risks described above. We have made only limited use of these types of instruments as discussed under "Hedging" above. We have determined that, generally, the costs of these transactions outweigh their benefits. This strategy saves us the additional costs of such hedging transactions, but it leaves us exposed to the types of risks that such hedging transactions would be designed to reduce. If we decide to enter into derivative transactions in the future, these transactions may mitigate our interest rate and prepayment risks but cannot eliminate these risks. Additionally, the use of derivative transactions could have a negative impact on our earnings.

An increase in interest rates may adversely affect our book value.

Increases in interest rates may negatively affect the market value of our mortgage-related assets. Our fixed-rate securities are generally more negatively affected by these increases. In accordance with accounting rules, we reduce our book value by the amount of any decrease in the market value of our mortgage-related assets. Losses on securities classified as available-for sale which are determined by management to be other than temporary in nature are reclassified from accumulated other comprehensive income to current operations.

We may invest in leveraged mortgage derivative securities that generally experience greater volatility in market prices, thus exposing us to greater risk with respect to their rate of return.

We may acquire leveraged mortgage derivative securities that may expose us to a high level of interest rate risk. The characteristics of leveraged mortgage derivative securities result in greater volatility in their market prices. Thus, acquisition of leveraged mortgage derivative securities would expose us to the risk of greater price volatility in our portfolio and that could adversely affect our net income and overall profitability.

We depend on borrowings to purchase mortgage-related assets and reach our desired amount of leverage. If we fail to obtain or renew sufficient funding on favorable terms, we will be limited in our ability to acquire mortgage-related assets and our earnings and profitability would decline.

We depend on short-term borrowings to fund acquisitions of mortgage-related assets and reach our desired amount of leverage. Accordingly, our ability to achieve our investment and leverage objectives depends on our ability to borrow money in sufficient amounts and on favorable terms. In addition, we must be able to renew or replace our maturing short-term borrowings on a continuous basis. Moreover, we depend on a limited number of lenders to provide the primary credit facilities for our purchases of mortgage-related assets.

If we cannot renew or replace maturing borrowings, we may have to sell our mortgage-related assets under adverse market conditions and may incur permanent capital losses as a result. Any number of these factors in combination may cause difficulties for us, including a possible liquidation of a major portion of our portfolio at disadvantageous prices with consequent losses, which may render us insolvent.

Possible market developments could cause our lenders to require us to pledge additional assets as collateral. If our assets are insufficient to meet the collateral requirements, then we may be compelled to liquidate particular assets at an inopportune time.

Possible market developments, including a sharp rise in interest rates, a change in prepayment rates or increasing market concern about the value or liquidity of one or more types of mortgage-related assets in which our portfolio is concentrated, may reduce the market value of our portfolio, which may cause our lenders to require additional collateral. This requirement for additional collateral may compel us to liquidate our assets at a disadvantageous time, thus adversely affecting our operating results and net profitability.

Our use of repurchase agreements to borrow funds may give our lenders greater rights in the event that either we or a lender files for bankruptcy.

Our borrowings under repurchase agreements may qualify for special treatment under the bankruptcy code, giving our lenders the ability to avoid the automatic stay provisions of the bankruptcy code and to take possession of and liquidate our collateral under the repurchase agreements without delay in the event that we file for bankruptcy. Furthermore, the special treatment of repurchase agreements under the bankruptcy code may make it difficult for us to recover our pledged assets in the event that a lender files for bankruptcy. Thus, the use of repurchase agreements exposes our pledged assets to risk in the event of a bankruptcy filing by either a lender or us.

Because assets we acquire may experience periods of illiquidity, we may lose profits or be prevented from earning capital gains if we cannot sell mortgage-related assets at an opportune time.

We bear the risk of being unable to dispose of our mortgage-related assets at advantageous times or in a timely manner because mortgage-related assets generally experience periods of illiquidity. The lack of liquidity may result from the absence of a willing buyer or an established market for these assets, as well as legal or contractual restrictions on resale. As a result, the illiquidity of mortgage-related assets may cause us to lose profits and the ability to earn capital gains.

We depend on our key personnel and the loss of any of our key personnel could severely and detrimentally affect our operations.

We depend on the diligence, experience and skill of our officers and other employees for the selection, structuring and monitoring of our mortgage-related assets and associated borrowings. Our key officers include Lloyd McAdams, President, Chairman and Chief Executive Officer, Joseph E. McAdams, Chief Investment Officer, Executive Vice President and Director, Thad Brown, Chief Financial Officer, Evangelos Karagiannis, Vice President, and Bistra Pashamova, Vice President. Our dependence on our key personnel is heightened by the fact that we have a relatively small number of employees, and the loss of any key person could harm our entire business, financial condition, cash flow and results of operations. In particular, the loss of the services of Lloyd McAdams or Joseph E. McAdams could seriously harm our business.

Our board of directors may change our operating policies and strategies without prior notice or stockholder approval and such changes could harm our business, results of operation and stock price.

Our board of directors can modify or waive our current operating policies and our strategies without prior notice and without stockholder approval. We cannot predict the effect any changes to our current operating policies and strategies may have on our business, operating results and stock price, however, the effects may be adverse.

Our incentive compensation plan may create an incentive to increase the risk of our mortgage portfolio in an attempt to increase compensation.

In addition to their base salaries, management and key employees are eligible to earn incentive compensation for each fiscal year pursuant to our incentive compensation plan. Under the plan, the aggregate amount of compensation that may be earned by all employees equals a percentage of taxable net income, before incentive compensation, in excess of the amount that would produce an annualized return on average net worth equal to the ten-year US Treasury Rate plus 1%. In any fiscal quarter in which our taxable net income is an amount less than the amount necessary to earn this threshold return, we calculate negative incentive compensation for that fiscal quarter which will be carried forward and will offset future incentive compensation earned under the plan, but only with respect to those participants who were participants during the fiscal quarter(s) in which negative incentive compensation was generated. Although negative incentive compensation is used to offset future incentive compensation, as our management evaluates different mortgage-backed securities for our investment, there is a risk that management will cause us to assume more risk than is prudent.

Competition may prevent us from acquiring mortgage-related assets at favorable yields and that would negatively impact our profitability.

Our net income largely depends on our ability to acquire mortgage-related assets at favorable spreads over our borrowing costs. In acquiring mortgage-related assets, we compete with other REITs, investment banking firms, savings and loan associations, banks, insurance companies, mutual funds, other lenders and other entities that purchase mortgage-related assets, many of which have greater financial resources than us. As a result, we may not in the future be able to acquire sufficient mortgage-related assets at favorable spreads over our borrowing costs. If that occurs, our profitability will be harmed.

Our investment policy involves risks associated with the credit quality of our investments. If the credit quality of our investments declines or if there are defaults on the investments we make, our profitability may decline and we may suffer losses.

Our mortgage-backed securities have primarily been agency certificates that, although not rated, carry an implied “AAA” rating. Agency certificates are mortgage-backed securities where either Freddie Mac or Fannie Mae guarantees payments of principal or interest on the certificates. Freddie Mac and Fannie Mae are government-sponsored enterprises and securities guaranteed by these entities are not guaranteed by the United States government. Our capital investment policy, however, provides us with the ability to acquire a material amount of lower credit quality mortgage-backed securities. If we acquire mortgage-backed securities of lower credit quality, our profitability may decline and we may incur losses if there are defaults on the mortgages backing those securities or if the rating agencies downgrade the credit quality of those securities or the securities of Fannie Mae and Freddie Mac.

We have not previously engaged in the business of acquiring and securitizing whole mortgage loans and we may not be successful.

We recently formed a new subsidiary called Belvedere Trust Mortgage Corporation, or Belvedere Trust, to engage in the business of acquiring and securitizing whole mortgage loans. Although we hired a management team that we believe has appropriate experience managing the acquisition and securitization of whole loans, we have never engaged in this particular business and we may not be successful. The acquisition of whole loans and the securitization process are inherently complex and involve risks related to the types of mortgages we seek to acquire, interest rate changes, funding sources, delinquency rates, borrower bankruptcies and other factors that we may not be able to manage. Our failure to manage these and other risks could have a material adverse affect on our business and results of operations.

Belvedere Trust’s investment strategy of acquiring, accumulating and securitizing loans involves credit risk.

While Belvedere Trust intends to securitize the loans that it acquires into high quality assets in order to achieve better financing rates and to improve its access to financing, it bears the risk of loss on any loans that its acquires or originates and which it subsequently securitizes. Belvedere Trust will acquire loans that are not credit enhanced and that do not have the backing of Fannie Mae or Freddie Mac. Accordingly, it will be subject to risks of borrower default, bankruptcy and special hazard losses (such as those occurring from earthquakes) with respect to those loans to the extent that there is any deficiency between the value of the mortgage collateral and insurance and the principal amount of the loan. In the event of a default on any such loans that it holds, Belvedere Trust would bear the loss of principal between the value of the mortgaged property and the outstanding indebtedness, as well as the loss of interest.

Belvedere Trust will require a significant amount of cash, and if it is not available, the business and financial performance of Belvedere Trust will be significantly harmed.

Belvedere Trust will require substantial cash to fund its loan acquisitions, to pay its loan acquisition expenses and to hold its loans pending sale or securitization. Belvedere Trust will also need cash to meet its working capital and other needs. Pending sale or securitization of a pool of mortgage loans, Belvedere Trust will acquire mortgage loans that it expects to finance through borrowings from warehouse lines of credit and repurchase facilities. It is possible that Belvedere Trust's future warehouse lenders could experience changes in their ability to advance funds to Belvedere Trust, independent of the performance of Belvedere Trust or its loans. We anticipate that Belvedere Trust's repurchase facilities will be dependent on the ability of counter-parties to re-sell Belvedere Trust's obligations to third parties. If there is a disruption of the repurchase market generally, or if one of Belvedere Trust's counter-parties is itself unable to access the repurchase market, Belvedere Trust's access to this source of liquidity could be adversely affected. Cash could also be required to meet margin calls under the terms of Belvedere Trust's borrowings in the event that there is a decline in the market value of the loans that collateralize its debt, the terms of short-term debt become less attractive, or for other reasons. Any of these events would have a material adverse affect on Belvedere Trust.

For some period of time, Belvedere Trust will use the net proceeds of our investment in Belvedere Trust to meet its operating expenses as it acquires new loans for its portfolio. If Belvedere Trust has fully invested all of the net proceeds of our investment in it prior to the point at which Belvedere Trust generates sufficient cash for it to fund its operations, if it ever does, then Belvedere Trust will need to either restructure the securities supporting its portfolio, require additional capital from us or third parties or, if it is unable to sell additional securities on reasonable terms or at all, it will need to either reduce its acquisition business or sell a higher portion of its loans. In the event that Belvedere Trust's liquidity needs exceed its access to liquidity, it may need to sell assets at an inopportune time, thus reducing its earnings. Adverse cash flow could threaten Belvedere Trust's ability to maintain its solvency or to satisfy the income and asset tests necessary to elect and maintain REIT status.

The use of securitizations with over-collateralization requirements may have a negative impact on Belvedere Trust's cash flow.

Belvedere Trust expects that its securitizations will restrict its cash flow if the loan delinquencies exceed certain levels. The terms of the securitization will generally provide that, if certain delinquencies and/or losses exceed the specified levels based on rating agencies' (or the financial guaranty insurer's, if applicable) analysis of the characteristics of the loans pledged to collateralize the securities, the required level of over-collateralization may be increased or may be prevented from decreasing as would otherwise be permitted if losses and/or delinquencies did not exceed those levels. Other tests (based on delinquency levels or other criteria) may restrict Belvedere Trust's ability to receive net interest income from a securitization transaction. We cannot assure you that the performance tests will be satisfied. Nor can we assure you, in advance of completing negotiations with the rating agencies or other key transaction parties on our future securitizations, the actual terms of the delinquency tests, over-collateralization terms, cash flow release mechanisms or other significant factors regarding the calculation of net excess income to Belvedere Trust. Failure to obtain the terms on a favorable basis may materially and adversely affect the availability of net excess income to Belvedere Trust.

The success of Belvedere Trust's loan business will depend upon its ability to ensure that loans to be held in its securitizations are serviced effectively.

The success of Belvedere Trust's mortgage loan business will depend to a great degree upon its ability to ensure that its loans held for securitization are serviced effectively. In general, it is the intention of Belvedere

Trust to acquire loans "servicing retained", where the loans will be serviced by the originating or selling institution. Belvedere Trust has no experience servicing a portfolio of loans. If Belvedere Trust is required to purchase the servicing of a loan portfolio in order to acquire a portfolio with desirable attributes, Belvedere Trust will be required to implement a servicing function or contract with a third party to service the loans in order for Belvedere Trust to implement its strategy. We cannot assure you that Belvedere Trust will be able to service the loans or effectively supervise a sub-servicing relationship according to industry standards. Failure to service the loans properly will harm Belvedere Trust's business and operating results. Prior to either building the servicing capabilities that Belvedere Trust may require or acquiring an existing servicing operation that has such capabilities, if ever, Belvedere Trust anticipates contracting with an experienced servicer of non-conforming loans to "sub-service" its loans. The fees paid to a subservicer will reduce to a certain extent the revenue Belvedere Trust is able to retain from its loans, and its net interest income will be reduced by and at risk, depending on the effectiveness of the servicing company.

If actual prepayments or defaults with respect to mortgages serviced occurs more quickly than originally assumed, the value of Belvedere Trust's mortgage servicing rights would be subject to downward adjustment.

When Belvedere Trust purchases mortgages that include the associated servicing rights, the allocated cost of the servicing rights will be reflected on its financial statements as mortgage servicing rights. To determine the fair value of these servicing rights, Belvedere Trust will use assumptions to estimate future net servicing income including projected discount rates, mortgage loan prepayments and credit losses. If actual prepayments or defaults with respect to loans serviced occur more quickly than Belvedere Trust originally assumed, Belvedere Trust would have to reduce the carrying value of its mortgage servicing rights. Belvedere Trust does not know if its assumptions will prove correct.

Belvedere Trust will be externally managed and this may diminish or eliminate our return on our investment in this line of business.

Belvedere Trust will be externally managed pursuant to a management agreement between Belvedere Trust and BT Management Company, L.L.C., or BT Management. Although we own 50% of BT Management, it is also owned 27.5% by Claus Lund, the Chief Executive Officer of Belvedere Trust, 17.5% by Russell J. Thompson, the Chief Financial Officer of Belvedere Trust and 5% by Lloyd McAdams, our Chairman and Chief Executive Officer. Our ability to generate profits from our ownership of Belvedere Trust, if any, could be greatly diminished due to the fact that we will be required to pay a base management fee to BT Management and we may also be required to pay an incentive fee. An externally managed structure may not optimize our interest in Belvedere Trust and, if we are unable to properly manage fixed costs at Belvedere Trust could, when combined with the base management fee, result in losses at Belvedere Trust.

Our Chairman has an ownership interest in BT Management that creates potential conflicts of interest.

Mr. McAdams, our Chairman and Chief Executive Officer, has a direct ownership interest in BT Management that creates potential conflicts of interest. Mr. McAdams is Chairman of the Board and Chief Executive Officer and a member of the Board of Managers of BT Management and owns an equity interest in BT Management. Under the management agreement between Belvedere Trust and BT Management, BT Management is entitled to earn certain incentive compensation based on the level of Belvedere Trust's annualized net income. In evaluating mortgage assets for investment and with respect to other management strategies, an undue emphasis on the maximization of income at the expense of other criteria could result in increased risk to the value of our portfolio.

Risks Related to REIT Compliance and Other Matters

If we are disqualified as a REIT, we will be subject to tax as a regular corporation and face substantial tax liability.

We believe that since our initial public offering in 1998 we have operated so as to qualify as a REIT under the Internal Revenue Code of 1986, as amended (the tax code), and we intend to continue to meet the requirements for taxation as a REIT. Nevertheless, we may not remain qualified as a REIT in the future. Qualification as a REIT involves the application of highly technical and complex tax code provisions for which only a limited number of judicial or administrative interpretations exist. Even a technical or inadvertent mistake could jeopardize our REIT status. Furthermore, Congress or the IRS might change tax laws or regulations and the courts might issue new rulings, in each case potentially having retroactive effect that could make it more difficult or impossible for us to qualify as a REIT. If we fail to qualify as a REIT in any tax year, then:

- we would be taxed as a regular domestic corporation, which, among other things, means being unable to deduct distributions to stockholders in computing taxable income and being subject to federal income tax on our taxable income at regular corporate rates;
- any resulting tax liability could be substantial and would reduce the amount of cash available for distribution to stockholders; and
- unless we were entitled to relief under applicable statutory provisions, we would be disqualified from treatment as a REIT for the subsequent four taxable years following the year during which we lost our qualification, and thus, our cash available for distribution to stockholders would be reduced for each of the years during which we do not qualify as a REIT.

Complying with REIT requirements may cause us to forego otherwise attractive opportunities.

In order to qualify as a REIT for federal income tax purposes, we must continually satisfy tests concerning, among other things, our sources of income, the nature and diversification of our mortgage-backed securities and other assets, including our stock in Belvedere Trust, the amounts we distribute to our stockholders and the ownership of our stock. We may also be required to make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution. Thus, compliance with REIT requirements may hinder our ability to operate solely on the basis of maximizing profits.

Complying with REIT requirements may limit our ability to hedge effectively.

The REIT provisions of the tax code may substantially limit our ability to hedge mortgage-backed securities and related borrowings by requiring us to limit our income in each year from qualified hedges, together with any other income not generated from qualified REIT real estate assets, to less than 25% of our gross income. In addition, we must limit our aggregate income from hedging and services from all sources, other than from qualified REIT real estate assets or qualified hedges, to less than 5% of our annual gross income. As a result, although we do not currently engage in hedging transactions, we may in the future have to limit our use of advantageous hedging techniques. This could result in greater risks associated with changes in interest rates than we would otherwise want to incur. If we were to violate the 25% or 5% limitations, we may have to pay a penalty tax equal to the amount of income in excess of those limitations, multiplied by a fraction intended to reflect our profitability. If we fail to satisfy the 25% and 5% limitations, unless our failure was due to reasonable cause and not due to willful neglect, we could lose our REIT status for federal income tax purposes.

Complying with REIT requirements may force us to liquidate otherwise attractive investments.

In order to qualify as a REIT, we must also ensure that at the end of each calendar quarter at least 75% of the value of our assets consists of cash, cash items, government securities and qualified REIT real estate assets. The remainder of our investment in securities generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets can consist of the securities of any one issuer. The 5% and 10% limitations described above will apply to our investment in Belvedere Trust unless Belvedere Trust is a qualified REIT subsidiary of ours (i.e., we own 100% of Belvedere Trust's outstanding stock), Belvedere Trust is a qualified REIT, or Belvedere Trust is a taxable REIT subsidiary of ours. If we fail to comply with these requirements, we must dispose of a portion of our assets within 30 days after the end of the calendar quarter in order to avoid losing our REIT status and suffering adverse tax consequences.

Complying with REIT requirements may force us to borrow to make distributions to stockholders.

As a REIT, we must distribute 90% of our annual taxable income (subject to certain adjustments) to our stockholders. From time to time, we may generate taxable income greater than our net income for financial reporting purposes from, among other things, amortization of capitalized purchase premiums, or our taxable income may be greater than our cash flow available for distribution to stockholders. For example, our taxable income would exceed our net income for financial reporting purposes to the extent that compensation paid to our chief executive officer and our other four highest paid officers exceeds $1,000,000 for any such officer for any calendar year under Section 162(m) of the tax code. Since payments under our 2002 Incentive Compensation Plan do not qualify as performance-based compensation under Section 162(m), a portion of the payments made under such plan to certain of such officers would not be deductible for federal income tax purposes under such circumstances. If we do not have other funds available in these situations, we may be unable to distribute substantially all of our taxable income as required by the REIT provisions of the tax code. Thus, we could be required to borrow funds, sell a portion of our mortgage-backed securities at disadvantageous prices or find another alternative source of funds. These alternatives could increase our costs or reduce our equity.

If Belvedere Trust fails to qualify as a REIT, a qualified REIT subsidiary or a taxable REIT subsidiary, we may lose our REIT status.

As long as we own 100% of Belvedere Trust's outstanding stock, Belvedere Trust will be treated as a qualified REIT subsidiary for federal income tax purposes. As such, for federal income tax purposes, we will not be treated as owning stock in Belvedere Trust and Belvedere Trust's assets, liabilities and income will generally be treated as our assets, liabilities and income for purposes of the REIT qualification tests described above under "Certain Federal Income Tax Considerations." If, however, we do not own 100% of Belvedere Trust's outstanding stock, and Belvedere Trust does not qualify as a REIT or a taxable REIT subsidiary, we will lose our REIT status if, at the end of any calendar quarter, the value of our Belvedere Trust securities exceeds 5% of the value of our total assets or we own more than 10% of the value or voting power of Belvedere Trust's outstanding securities. If we fail to satisfy the 5% test or the 10% test at the end of any calendar quarter, a 30-day "cure" period may apply following the close of the quarter. If we make an election to treat Belvedere Trust as a taxable REIT subsidiary, the total value of any securities we own in Belvedere Trust and all of our other taxable REIT subsidiaries, if any, may not exceed 20% of the value of our total assets at the end of any calendar quarter. Since Belvedere Trust may elect to be taxed as a REIT in the future, however, we do not intend to make a taxable REIT subsidiary election for Belvedere Trust

If Belvedere Trust fails to qualify as a REIT, Belvedere Trust will be subject to corporate income taxes on its taxable income, which will reduce the amount available for distribution to us.

Belvedere Trust was formed as a qualified REIT subsidiary, but may elect to be taxed to be as a REIT in the future, possibly as early as its taxable year ending December 31, 2004. Although Belvedere Trust expects to operate in a manner to permit it to qualify as a REIT if and when it makes a REIT election and to continue to maintain such qualification, the actual results of Belvedere Trust's operations for any particular taxable year may not satisfy these requirements. If Belvedere Trust fails to qualify for taxation as a REIT in any taxable year after it makes a REIT election, and the relief provisions of the tax code do not apply, Belvedere Trust will be required to pay tax on Belvedere Trust's taxable income in that taxable year and all subsequent taxable years at regular corporate rates. Distributions to us in any year in which Belvedere Trust fails to qualify as a REIT will not be deductible by Belvedere Trust. As a result, we anticipate that Belvedere Trust's failure to qualify as a REIT after it makes a REIT election would reduce the cash available for distribution to us. Unless entitled to relief under specific statutory provisions, if Belvedere Trust fails to maintain its REIT status after it makes a REIT election, Belvedere Trust will also be disqualified from taxation as a REIT for the four taxable years following the year in which it loses its qualification.

Failure to maintain an exemption from the Investment Company Act would adversely affect our results of operations.

We believe that we conduct our business in a manner that allows us to avoid being regulated as an investment company under the Investment Company Act of 1940, as amended. If we fail to continue to qualify for an exemption from registration as an investment company, our ability to use leverage would be substantially reduced and we would be unable to conduct our business as planned. 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." Under the SEC's current interpretation, qualification for this exemption generally requires us to maintain at least 55% of our assets directly in qualifying real estate interests. Mortgage-backed securities that do not represent all the certificates issued with respect to an underlying pool of mortgages may be treated as securities separate from the underlying mortgage loans and thus may not qualify for purposes of the 55% requirement. Therefore, our ownership of these mortgage-backed securities is limited by the Investment Company Act. In meeting the 55% requirement under the Investment Company Act, we treat as qualifying interests mortgage-backed securities issued with respect to an underlying pool for which we hold all issued certificates. If the SEC or its staff adopts a contrary interpretation, we could be required to sell a substantial amount of our mortgage-backed securities under potentially adverse market conditions. Further, in order to maintain our exemption from registration as an investment company, we may be precluded from acquiring mortgage-backed securities whose yield is somewhat higher than the yield on mortgage-backed securities that could be purchased in a manner consistent with the exemption.

Additional Risk Factors

We may not be able to use the money we raise to acquire investments at favorable prices.

We intend to seek to raise additional capital from time to time if we determine that it is in our best interests and the best interests of our stockholders, including through public offerings of our stock. The net proceeds of any offering could represent a significant increase in our equity. Depending on the amount of leverage that we use, the full investment of the net proceeds of any offering might result in a substantial increase in our total assets. There can be no assurance that we will be able to invest all of such additional funds in mortgage-backed securities at favorable prices. We may not be able to acquire enough mortgage-backed securities to become fully invested after an offering, or we may have to pay more for mortgage-backed securities than we have historically. In either case, the return that we earn on stockholders' equity may be reduced.

We have not established a minimum dividend payment level and there are no assurances of our ability to pay dividends in the future.

We intend to pay quarterly dividends and to make distributions to our stockholders in amounts such that all or substantially all of our taxable income in each year, subject to certain adjustments, is distributed. This, along with other factors, should enable us to qualify for the tax benefits accorded to a REIT under the tax code. We have not established a minimum dividend payment level and our ability to pay dividends may be adversely affected by the risk factors described in this annual report on 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. There are no assurances of our ability to pay dividends in the future.

If we raise additional capital, our earnings per share and dividends per share may decline since we may not be able to invest all of the new capital during the quarter in which additional shares are sold and possibly the entire following calendar quarter.

We may incur excess inclusion income that would increase the tax liability of our stockholders.

In general, dividend income that a tax-exempt entity receives from us should not constitute unrelated business taxable income as defined in Section 512 of the tax code. If we realize excess inclusion income and allocate it to stockholders, this income cannot be offset by net operating losses. If the stockholder was a tax-exempt entity, then this income would be fully taxable as unrelated business taxable income under Section 512 of the tax code. If the stockholder was foreign, then it would be subject to federal income tax withholding on this income without reduction pursuant to any otherwise applicable income-tax treaty.

Excess inclusion income could result if we or Belvedere Trust held a residual interest in a REMIC. Excess inclusion income also would be generated if we or Belvedere Trust were to issue debt obligations with two or more maturities and the terms of the payments on these obligations bore a relationship to the payments that we received on our mortgage-backed securities securing those debt obligations. We generally structure our borrowing arrangements in a manner designed to avoid generating significant amounts of excess inclusion income. We do, however, enter into various repurchase agreements that have differing maturity dates and afford the lender the right to sell any pledged mortgage securities if we default on our obligations. The IRS may determine that these borrowings give rise to excess inclusion income that should be allocated among stockholders. Furthermore, some types of tax-exempt entities, including, without limitation, voluntary employee benefit associations and entities that have borrowed funds to acquire their shares of our common stock, may be required to treat a portion of or all of the dividends they may receive from us as unrelated business taxable income. We also invest in equity securities of other REITs. If we were to receive excess inclusion income from another REIT, we may be required to distribute the excess inclusion income to our stockholders, which may result in the recognition of unrelated business taxable income.

Our charter does not permit ownership of over 9.8% of our common or preferred stock and attempts to acquire our common or preferred stock in excess of the 9.8% limit are void without prior approval from our board of directors.

For the purpose of preserving our REIT qualification and for other reasons, our charter prohibits direct or constructive ownership by any person of more than 9.8% of the lesser of the total number or value of the outstanding shares of our common stock or more than 9.8% of the outstanding shares of our preferred stock. Our charter's constructive ownership rules are complex and may cause the outstanding stock owned by a group of related individuals or entities to be deemed to be constructively owned by one individual or entity. As a result, the acquisition of less than 9.8% of the outstanding stock by an individual or entity could cause that individual or entity to own constructively in excess of 9.8% of the outstanding stock, and thus be subject to our charter's ownership limit. Any attempt to own or transfer shares of our common or preferred stock in excess of the ownership limit without the consent of the board of directors shall be void, and will result in the shares being transferred by operation of law to a charitable trust. Our board of directors has previously granted Lloyd McAdams, our President, Chairman and Chief Executive Officer, and his family members an exemption from the 9.8% ownership limitation as set forth in our charter documents. This exemption allowed Lloyd McAdams, Heather Baines and Joseph McAdams collectively to hold up to 19% of our outstanding shares. Our board of directors has recently terminated this exemption.

Because provisions contained in Maryland law, our charter and our bylaws may have an anti-takeover effect, investors may be prevented from receiving a "control premium" for their shares.

Provisions contained in our charter and bylaws, as well as Maryland corporate law, may have anti-takeover effects that delay, defer or prevent a takeover attempt, which may prevent stockholders from receiving a "control premium" for their shares. For example, these provisions may defer or prevent tender offers for our common stock or purchases of large blocks of our common stock, thereby limiting the opportunities for our stockholders to receive a premium for their common stock over then-prevailing market prices. These provisions include the following:

- *Ownership limit*. The ownership limit in our charter limits related investors, including, among other things, any voting group, from acquiring over 9.8% of our common stock without our permission.

- *Preferred stock*. Our charter authorizes our board of directors to issue preferred stock in one or more classes and to establish the preferences and rights of any class of preferred stock issued. These actions can be taken without soliciting stockholder approval.
- *Maryland business combination statute*. Maryland law restricts the ability of holders of more than 10% of the voting power of a corporation's shares to engage in a business combination with the corporation.
- *Maryland control share acquisition statute*. Maryland law limits the voting rights of "control shares" of a corporation in the event of a "control share acquisition."

Issuances of large amounts of our stock could cause the price of our stock to decline.

We may issue additional shares of common stock or shares of preferred stock that are convertible into common stock. If we issue a significant number of shares of common stock or convertible preferred stock in a short period of time, there could be a dilution of the existing common stock and a decrease in the market price of the common stock.

Future offerings of debt securities, which would be senior to our common stock upon liquidation, or equity securities, which would dilute our existing stockholders and may be senior to our common stock for the purposes of dividend distributions, may adversely affect the market price of our common stock.

In the future, we may attempt to increase our capital resources by making additional offerings of debt or equity securities, including commercial paper, medium-term notes, senior or subordinated notes and classes of preferred stock or common stock. Upon liquidation, holders of our debt securities and shares of preferred stock and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of our common stock. Our preferred stock, if issued, may have a preference on dividend payments that could limit our ability to make a dividend distribution to the holders of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our stockholders bear the risk of our future offerings reducing the market price of our common stock.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We seek to manage the interest rate, market value, liquidity, prepayment and credit risks inherent in all financial institutions in a prudent manner designed to insure our longevity while, at the same time, seeking to provide an opportunity for stockholders to realize attractive total rates of return through ownership of our common stock. While we do not seek to avoid risk completely, we do seek, to the best of our ability, to assume risk that can be quantified from historical experience, to actively manage that risk, to earn sufficient compensation to justify taking those risks and to maintain capital levels consistent with the risks we undertake.

Interest Rate Risk

We primarily invest in adjustable-rate, hybrid and fixed-rate mortgage-backed securities. Hybrid mortgages are adjustable-rate mortgages that have a fixed interest rate for an initial period of time (typically three years and five years) and then convert to a one-year adjustable-rate for the remaining loan term. Our debt obligations are generally repurchase agreements of limited duration that are periodically refinanced at current market rates.

Adjustable-rate mortgage-backed assets are typically subject to periodic and lifetime interest rate caps that limit the amount an adjustable-rate mortgage-backed securities' interest rate can change during any given period. Adjustable-rate mortgage securities are also typically subject to a minimum interest rate payable. Our borrowings are not subject to similar restrictions. Hence, in a period of increasing interest rates, interest rates on our borrowings could increase without limitation, while the interest rates on our mortgage-related assets could be limited. This problem would be magnified to the extent we acquire mortgage-backed securities that are not fully indexed. Further, some adjustable-rate mortgage-backed securities may be subject to periodic payment caps that result in some portion of the interest being deferred and added to the principal outstanding. These factors could lower our net interest income or cause a net loss during periods of rising interest rates, which would negatively impact our liquidity, net income and our ability to make distributions to stockholders.

We fund the purchase of a substantial portion of our adjustable-rate mortgage-backed debt securities with borrowings that have interest rates based on indices and repricing terms similar to, but of somewhat shorter maturities than, the interest rate indices and repricing terms of the mortgage assets. Thus, we anticipate that in most cases the interest rate indices and repricing terms of our mortgage assets and our funding sources will not be identical, thereby creating an interest rate mismatch between assets and liabilities. During periods of changing interest rates, such interest rate mismatches could negatively impact our net income, dividend yield and the market price of our common stock.

Most of our adjustable-rate assets are based on the one-year constant maturity treasury rate and our debt obligations are generally based on LIBOR. These indices generally move in parallel, but there can be no assurance that this will continue to occur.

Our adjustable-rate mortgage-backed securities and borrowings reset at various different dates for the specific asset or obligation. In general, the repricing of our debt obligations occurs more quickly than on our assets. Therefore, on average, our cost of funds may rise or fall more quickly than does our earnings rate on the assets.

Further, our net income may vary somewhat as the spread between one-month interest rates and six- and twelve-month interest rates varies.

As of December 31, 2003, our mortgage-backed securities and borrowings will prospectively reprice based on the following time frames:

	Assets		Borrowings	
	Amount	Percent of Total Investments	Amount	Percent of Total Borrowings
	(dollar amounts in thousands)			
Investment Type/Rate Reset Dates				
Fixed-Rate Investments	$ 401,736	9.5%	—	—
Adjustable Rate Investments/Obligations:				
Less than 3 months	238,108	5.6%	721,508	19.1%
Greater than 3 months and less than 1 year	864,626	20.3%	2,319,523	61.4%
Greater than 1 year and less than 2 years	541,416	12.8%	734,660	19.5%
Greater than 2 years and less than 3 years	1,814,758	42.7%	—	—
Greater than 3 years and less than 5 years	385,209	9.1%	—	—
Total	$4,245,853	100%	$3,775,691	100%

Market Value Risk

Substantially all of our mortgage-backed securities and equity securities are classified as available-for-sale assets. As such, they are reflected at fair value (i.e., market value) with the adjustment to fair value reflected as part of accumulated other comprehensive income that is included in the equity section of our balance sheet. The market value of our assets can fluctuate due to changes in interest rates and other factors.

Liquidity Risk

Our primary liquidity risk arises from financing long-maturity mortgage-backed securities with short-term debt. The interest rates on our borrowings generally adjust more frequently than the interest rates on our adjustable-rate mortgage-backed securities. For example, at December 31, 2003, our adjustable-rate mortgage-backed securities had a weighted average term to next rate adjustment of approximately 22 months, while our borrowings had a weighted average term to next rate adjustment of 268 days. Accordingly, in a period of rising interest rates, our borrowing costs will usually increase faster than our interest earnings from mortgage-backed securities. As a result, we could experience a decrease in net income or a net loss during these periods. Our assets that are pledged to secure short-term borrowings are high-quality, liquid assets. As a result, we have not had difficulty rolling over our short-term debt as it matures. There can be no assurance that we will always be able to roll over our short-term debt. At December 31, 2003, we had $735 million of debt which could be considered long-term debt with a term greater than one year.

At December 31, 2003, we had unrestricted cash of $196,000 available to meet margin calls on short-term borrowings that could be caused by asset value declines or changes in lender collateralization requirements.

Prepayment Risk

Prepayments are the full or partial repayment of principal prior to the original term to maturity of a mortgage loan and typically occur due to refinancing of mortgage loans. Prepayment rates on mortgage-related securities vary from time to time and may cause changes in the amount of our net interest income. Prepayments of adjustable-rate mortgage loans usually can be expected to increase when mortgage interest rates fall below the then-current interest rates on such loans and decrease when mortgage interest rates exceed the then-current interest rate on such loans, although such effects are not predictable. Prepayment experience also may be affected by the conditions in the housing and financial markets, general economic conditions, seasonal changes and the relative interest rates on fixed-rate and adjustable-rate mortgage loans underlying mortgage-backed securities. The purchase prices of mortgage-backed securities are generally based upon assumptions regarding the expected amounts and rates of prepayments. Where slow prepayment assumptions are made, we may pay a premium for mortgage-backed securities. To the extent such assumptions differ from the actual amounts of prepayments, we could experience reduced earnings or losses. The total prepayment of any mortgage-backed securities purchased at a premium by us would result in the immediate write-off of any remaining capitalized premium amount and a reduction of our net interest income by such amount. Finally, in the event that we are unable to acquire new mortgage-backed securities to replace the prepaid mortgage-backed securities, our financial condition, cash flows and results of operations could be harmed.

We often purchase mortgage-backed securities that have a higher interest rate than the market interest rate at the time. In exchange for this higher interest rate, we must pay a premium over par value to acquire these securities. In accordance with accounting rules, we amortize this premium over the term of the mortgage-backed security. As we receive repayments of mortgage principal, we amortize the premium balances as a reduction to our income. If the mortgage loans underlying a mortgage-backed security are prepaid at a faster rate than we anticipate, we would have to amortize the premium at a faster rate. This would reduce our income. At December 31, 2003, unamortized mortgage premium balances of mortgage-backed securities for financial accounting purposes were $112 million, or 2.5% of total assets.

Tabular Presentation

The information presented in the table below projects the impact of sudden changes in interest rates on our 2004 projected net income and net assets as more fully discussed below based on investments in place on December 31, 2003, and includes all of our interest-rate sensitive assets and liabilities. We acquire interest-rate sensitive assets and fund them with interest-rate sensitive liabilities. We generally plan to retain such assets and the associated interest rate risk to maturity.

Change in Interest Rate	Percentage Change in Net Income	Percentage Change in Net Assets
–2.0%	–81.0%	1.4%
–1.0%	–37.0%	1.2%
0.0%	—	—
1.0%	14.0%	–2.0%
2.0%	11.8%	–4.5%

Many assumptions are made to present the information in the above table, as such, there can be no assurance that assumed events will occur or that other events will not occur that would affect the outcomes; therefore, the above table and all related disclosure constitutes forward-looking statements. The analysis presented utilizes assumptions and estimates based on management's judgment and experience. Furthermore, future sales, acquisitions and restructuring could materially change our interest rate risk profile.

The table quantifies the potential changes in net income and net asset value should interest rates immediately change (are "shocked"). The results of interest rate shocks of plus and minus 100 and 200 basis points are presented. The cash flows associated with the portfolio of mortgage-backed securities for each rate shock are calculated based on a variety of assumptions, including prepayment speeds, time until coupon reset, yield on future acquisitions, slope of the yield curve and size of the portfolio. Assumptions made on the interest rate sensitive liabilities, which are repurchase agreements, include anticipated interest rates, collateral requirements as a percent of the repurchase agreement and amount of borrowing. Assumptions made in calculating the impact on net asset value of interest rate shocks include interest rates, prepayment rates and the yield spread of mortgage-backed securities relative to prevailing interest rates.

Our asset/liability structure is generally such that a decrease in interest rates would be expected to result in an increase to net interest income, as our cost of funds are generally shorter term than our interest earning assets. Nevertheless, given the impact of prepayment assumptions and other assumptions coupled with the low level of interest rates at December 31, 2003, the interest rate shocks presented in the above table would cause net income to decrease under each of the interest rate shock scenarios presented. When interest rates are shocked, prepayment assumptions are adjusted based on management's best estimate of the effects of changes in interest rates on prepayment speeds. For example, under current market conditions, a 100 basis point decline in interest rates is estimated to result in a 65.8% increase in the prepayment rate of our mortgage-backed securities portfolio. The base interest rate scenario assumes interest rates at December 31, 2003. Actual results could differ significantly from those estimated in the table.

Recently Issued Accounting Pronouncements

In May 2003, the FASB issued Financial Accounting Standards No. 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" in an effort to establish standards for classification and measurements of those financial instruments. It requires that an issuer classify a financial instrument within its scope as a liability. Many of those instruments, as stated in FAS 150, were previously classified as equity. This statement is effective at the beginning of the first interim period commencing after June 15, 2004. The provisions of FAS 150 should did not have a material effect on the Company's financial statements.

On July 1, 2003, the Company adopted SFAS No 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" (SFAS 149). SFAS 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). In particular, this SFAS 149 clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative and when a derivative contains a financing component that warrants special reporting in the statement of cash flows. This Statement is generally effective for contracts entered into or modified after June 30, 2003 and did not have an impact on the Company's Financial Statements, as no such contracts were entered into during this period.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

The financial statements and related financial information required to be filed hereunder are indexed under Item 15 of this report and are incorporated herein by reference.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On December 8, 2003, the audit committee of our board of directors voted to dismiss PricewaterhouseCoopers LLP as our independent accountants and to engage the services of BDO Seidman, LLP to serve as our independent public accountants for the 2003 fiscal year.

PricewaterhouseCoopers' reports on our consolidated financial statements for each of the years ended December 31, 2002 and 2001 did not contain an adverse opinion or disclaimer of opinion, nor were such reports qualified or modified as to uncertainty, audit scope, or accounting principles. In connection with its audits for the fiscal years ended December 31, 2002 and 2001 and through December 8, 2003, there were no disagreements with PricewaterhouseCoopers on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which, if not resolved to the satisfaction of PricewaterhouseCoopers, would have caused PricewaterhouseCoopers to make reference to the subject matter of the disagreement(s) in connection with its reports on our financial statements as of December 31, 2002 and 2001 and for the years then ended. During the fiscal years ended December 31, 2002 and 2001 and through December 8, 2003, there were no "reportable events" requiring disclosure pursuant to Item 304 (a) (1) (v) of Regulation S-K.

We requested and PricewaterhouseCoopers furnished us with a letter addressed to the SEC stating whether or not it agrees with the statements made in the paragraph above. A copy of the letter from PricewaterhouseCoopers dated December 8, 2003 was filed as Exhibit 16.1 to our Current Report on Form 8-K dated December 8, 2003.

Effective December 8, 2003, we engaged BDO Seidman as our independent accountants. During the two years ended December 31, 2002 and through December 8, 2003, neither we nor anyone on our behalf consulted BDO Seidman regarding either the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our consolidated financial statements, nor has BDO Seidman provided to us a written report or oral advice regarding such principles or audit opinion.

Item 9A. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), designed to ensure that information required to be disclosed by us in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported on a timely basis.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item is incorporated herein by reference from the information under the captions entitled "Election of Directors—Information Regarding Nominees for Director," "Executive Officers" and "Section 16(a) Beneficial Ownership Reporting Compliance" in our definitive proxy statement to be filed with the SEC no later than April 29, 2004.

Item 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference from the information under the caption entitled "Executive Compensation" in our definitive proxy statement to be filed with the SEC no later than April 29, 2004.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is incorporated by reference from the information under the caption entitled "Security Ownership of Certain Beneficial Owners and Management" in our definitive proxy statement to be filed with the SEC no later than April 29, 2004.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated by reference from the information under the caption entitled "Certain Transactions and Relationships" in our definitive proxy statement to be filed with the SEC no later than April 29, 2004.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated by reference from the information under the caption entitled "Principal Accountant Fees and Services" in our definitive proxy statement to be filed with the SEC no later than April 29, 2004.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Documents filed as part of this report:

(1) The following financial statements of the Company are included in Part II, Item 8 of this Annual Report on Form 10-K:

- Report of Independent Accountants, BDO Seidman, LLP;
- Report of Independent Accountants, PricewaterhouseCoopers LLP;
- Balance Sheets as of December 31, 2003 and December 31, 2002;
- Statements of Operations: Years Ended December 31, 2003, December 31, 2002 and December 31, 2001;
- Statements of Stockholders' Equity: Years Ended December 31, 2003, December 31, 2002 and December 31, 2001;
- Statements of Cash Flows: Years Ended December 31, 2003, December 31, 2002 and December 31, 2001; and
- Notes to Financial Statements.

(2) Schedules to financial statements:

All financial statement schedules have been omitted because they are either inapplicable or the information required is provided in the Company's Financial Statements and Notes thereto, included in Part II, Item 8 of this Annual Report on Form 10-K.

(3) The following exhibits are filed herewith:

Exhibit Number	Description
31.1	Certification of the Chief Executive Officer, as required by Rule 13a-14(a) of the Securities Exchange Act of 1934
31.2	Certification of the Chief Financial Officer, as required by Rule 13a-14(a) of the Securities Exchange Act of 1934
32.1	Certifications of the Chief Executive Officer provided pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certifications of the Chief Financial Officer provided pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K.

We filed the following current reports on Form 8-K during the quarter ended December 31, 2003:

- Form 8-K filed on October 17, 2003 to announce the issuance of our press release that announced our earnings for the quarter ended September 30, 2003 (Item 12).
- Form 8-K filed on November 5, 2003 to announce the issuance of our press release that announced the formation of a wholly-owned subsidiary of the Company, Belvedere Trust Mortgage Corporation (Item 5).
- Form 8-K filed on November 5, 2003 to announce the change in our independent accountants (Item 4).
- Form 8-K filed on December 18, 2003 to announce the issuance of our press release that addressed the declaration of a dividend for the quarter ended December 31, 2003 (Item 12).

Exhibit Number	Description
10.10(6)	Addendum to Employment Agreement dated April 18, 2002, among Anworth, the Manager and Joseph E. McAdams
10.11(6)	Second Addendum to Employment Agreement dated as of June 13, 2002 by and among Anworth and Joseph E. McAdams
10.12(6)	Sublease dated June 13, 2002, between Anworth and Pacific Income Advisers, Inc.
10.13(7)	Amendment to Sublease dated July 8, 2003 between Anworth and Pacific Income Advisers, Inc.
10.14(8)	Administrative Agreement dated October 14, 2002, between Anworth and Pacific Income Advisers, Inc.
10.15(9)	Deferred Compensation Plan
10.16(10)	BT Management Company, L.L.C. ("BT Management") Operating Agreement dated November 3, 2003
10.17(10)	Management Agreement dated November 3, 2003 between BT Management and Belvedere Trust Mortgage Corporation
10.18(10)	Employment Agreement dated November 3, 2003 between BT Management and Claus Lund
10.19(10)	Employment Agreement dated November 3, 2003 between BT Management and Russell J. Thompson
21.1	List of Subsidiaries
23.1	Consent of BDO Seidman, LLP
23.2	Consent of PricewaterhouseCoopers LLP
31.1	Certification of the Chief Executive Officer, as required by Rule 13a-14(a) of the Securities Exchange Act of 1934
31.2	Certification of the Chief Financial Officer, as required by Rule 13a-14(a) of the Securities Exchange Act of 1934
32.1	Certifications of the Chief Executive Officer provided pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certifications of the Chief Financial Officer provided pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(1) Incorporated by reference from our Registration Statement on Form S-11, Registration No. 333-38641, which became effective under the Securities Act of 1933, as amended (the "Act"), on March 12, 1998.

(2) Incorporated by reference from our Definitive Proxy Statement filed pursuant to Section 14(a) of the Securities Exchange Act of 1934, as filed with the Securities and Exchange Commission on May 14, 2003.

(3) Incorporated by reference from our Registration Statement on form S-3, Registration No. 333-85036, which became effective under the Act on June 13, 2002.

(4) Incorporated by reference from Post-Effective Amendment No. 1 to our Registration Statement on Form S-3, Registration No. 333-110744, which became effective under the Act on February 20, 2004.

(5) Incorporated by reference from our Definitive Proxy Statement filed pursuant to Section 14(a) of the Securities Exchange Act of 1934, as filed with the Securities Exchange Commission on May 17, 2002.

(6) Incorporated by reference from our Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, as filed with the Securities and Exchange Commission on August 14, 2002.

(7) Incorporated by reference from our Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, as filed with the Securities and Exchange Commission on August 8, 2003.

(8) Incorporated by reference from our Quarterly Report on Form 10-Q for the quarter ended September 30, 2002, as filed with the Securities and Exchange Commission on November 14, 2002.

(9) Incorporated by reference from our Annual Report on Form 10-K for the year ended December 31, 2002, as filed with the Securities and Exchange Commission on March 26, 2003.

(10) Incorporated by reference from our Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, as filed with the Securities and Exchange Commission on November 13, 2003.

(b) Reports on Form 8-K.

We filed the following current reports on Form 8-K during the quarter ended December 31, 2003:

- Form 8-K filed on October 17, 2003 to announce the issuance of our press release that announced our earnings for the quarter ended September 30, 2003 (Item 12).
- Form 8-K filed on November 5, 2003 to announce the issuance of our press release that announced the formation of a wholly-owned subsidiary of the Company, Belvedere Trust Mortgage Corporation (Item 5).
- Form 8-K filed on November 5, 2003 to announce the change in our independent accountants (Item 4).
- Form 8-K filed on December 18, 2003 to announce the issuance of our press release that addressed the declaration of a dividend for the quarter ended December 31, 2003 (Item 12).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DATED: March 8, 2004

ANWORTH MORTGAGE ASSET CORPORATION

/s/ JOSEPH LLOYD MCADAMS

Joseph Lloyd McAdams
Chairman of the Board, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ JOSEPH LLOYD MCADAMS **Joseph Lloyd McAdams**	Chairman of the Board, President and Chief Executive Officer (Principal Chief Executive)	March 8, 2004
/s/ THAD M. BROWN **Thad M. Brown**	Chief Financial Officer (Principal Accounting Officer)	March 8, 2004
/s/ JOSEPH E. MCADAMS **Joseph E. McAdams**	Executive Vice President Chief Investment Officer and Director	March 8, 2004
/s/ CHARLES H. BLACK **Charles H. Black**	Director	March 8, 2004
/s/ JOE E. DAVIS **Joe E. Davis**	Director	March 8, 2004
/s/ CHARLES F. SMITH **Charles F. Smith**	Director	March 8, 2004
/s/ LEE A. AULT, III **Lee A. Ault, III**	Director	March 8, 2004

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Joseph Lloyd McAdams, certify that:

1. I have reviewed this annual report on Form 10-K/A of Anworth Mortgage Asset Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 23, 2004

/s/ JOSEPH LLOYD MCADAMS

Joseph Lloyd McAdams
Chairman of the Board, President and
Chief Executive Officer
(authorized officer of registrant)

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Thad M. Brown, certify that:

1. I have reviewed this annual report on Form 10-K/A of Anworth Mortgage Asset Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 23, 2004

/s/ THAD M. BROWN

Thad M. Brown
Chief Financial Officer
(principal accounting officer)

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Anworth Mortgage Asset Corporation (the "Company") on Form 10-K/A for the year ended December 31, 2003, as filed with the Securities and Exchange Commission on March 23, 2004 (the "Report"), I, Joseph Lloyd McAdams, Chairman of the Board, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ JOSEPH LLOYD MCADAMS

Joseph Lloyd McAdams
Chairman of the Board, President and
Chief Executive Officer

March 23, 2004

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Anworth Mortgage Asset Corporation (the "Company") on Form 10-K/A for the year ended December 31, 2003, as filed with the Securities and Exchange Commission on March 23, 2004 (the "Report"), I, Thad M. Brown, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ THAD M. BROWN
Thad M. Brown
Chief Financial Officer

March 23, 2004

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ANWORTH MORTGAGE ASSET CORPORATION

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT ACCOUNTANTS

Board of Directors
Anworth Mortgage Asset Corporation

We have audited the accompanying balance sheet of Anworth Mortgage Asset Corporation as of December 31, 2003 and the related statement of operations, stockholders' equity, cash flows and comprehensive income for the year 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 audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Anworth Mortgage Asset Corporation at December 31, 2003 and the results of its operations, cash flows and comprehensive income for the year then ended in conformity with accounting principles generally accepted in the United States of America.

BDO Seidman, LLP
Los Angeles, California
February 6, 2004

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders of
Anworth Mortgage Asset Corporation

In our opinion, the accompanying balance sheets and the related statements of operations, stockholders' equity, comprehensive income and cash flows present fairly, in all material respects, the financial position of Anworth Mortgage Asset Corporation at December 31, 2002, and the results of its operations, cash flows and comprehensive income for each of the years in the two year period then ended in conformity with accounting principles generally accepted in the United States of America. 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 of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Los Angeles, California
January 18, 2003

ANWORTH MORTGAGE ASSET CORPORATION

BALANCE SHEETS
(in thousands)

	December 31, 2003	December 31, 2002
ASSETS		
Mortgage-backed securities:		
Mortgage-backed securities pledged to counterparties at fair value	$3,954,019	$2,338,405
Mortgage-backed securities at fair value	291,834	91,698
	4,245,853	2,430,103
Cash and cash equivalents	196	906
Accrued interest and dividend receivable	17,007	11,673
Prepaid expenses and other	218	1,202
	$4,263,274	$2,443,884
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Reverse repurchase agreements	$3,775,691	2,153,870
Accrued interest payable	14,684	9,944
Dividends payable	14,093	12,673
Accrued expenses and other	1,409	1,875
	3,805,877	2,178,362
STOCKHOLDERS' EQUITY		
Preferred stock, par value $.01 per share; authorized 20,000 shares; no shares issued and outstanding	—	—
Common stock; par value $.01 per share; authorized 100,000 shares; 42,707 and 25,396 issued and 42,707 and 25,346 outstanding, respectively	427	253
Additional paid in capital	488,909	256,610
Accumulated other comprehensive income, unrealized (loss)/gain on available-for-sale securities	(21,933)	14,860
Retained deficit	(9,331)	(5,218)
Unearned restricted stock	(675)	(754)
Treasury stock at cost (50 shares)	—	(229)
	457,397	265,522
	$4,263,274	$2,443,884

See notes to financial statements.

ANWORTH MORTGAGE ASSET CORPORATION

STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	For the Year Ended December 31, 2003	For the Year Ended December 31, 2002	For the Year Ended December 31, 2001
Interest and dividend income net of amortization of premium and discount	$100,077	$ 66,855	$10,768
Interest expense	(45,661)	(29,576)	(6,363)
Net interest income	54,416	37,279	4,405
Gain on sale of securities	3,497	4,709	430
Expenses: (Note 6)			
External management fee	—	(400)	(208)
External incentive fee	—	(1,741)	(598)
Compensation and benefits	(1,476)	(551)	
Incentive compensation	(3,899)	(3,055)	
Cost to acquire external manager	—	(3,475)	
Other expense	(2,343)	(1,096)	(323)
Total expenses	(7,718)	(10,318)	(1,129)
Net Income	$ 50,195	$ 31,670	$ 3,706
Basic earnings per share	$ 1.52	$ 1.81	$ 1.52
Average number of shares outstanding	32,927	17,461	2,442
Diluted earnings per share	$ 1.52	$ 1.80	$ 1.50
Average number of diluted shares outstanding	33,112	17,591	2,467
Dividends declared per share	$ 1.56	$ 2.00	$ 1.64

See notes to financial statements.

ANWORTH MORTGAGE ASSET CORPORATION

STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended December 31, 2003, 2002 and 2001
(in thousands except per share amounts)

	Common Stock Shares	Common Stock Par Value	Additional Paid-in Capital	Accum. Other Comprehensive Income (Loss)	Retained Earnings (deficit)	Unearned Restricted Stock	Treasury Stock at Cost	Comprehensive Income	Total
Balance, December 31, 2000	2,350	$ 24	$ 19,243	$ (1,186)	$ 349	$ —	$(229)	$ —	$ 18,201
Issuance of common stock	4,601	46	35,081						35,127
Available-for-sale securities, Fair value adjustment				1,891				1,891	1,891
Net income					3,706			3,706	3,706
Comprehensive income								$ 5,597	
Dividends declared—$1.64 per share					(3,928)				(3,928)
Balance, December 31, 2001	6,951	$ 70	$ 54,324	$ 705	$ 127	$ —	$(229)		$ 54,997
Issuance of common stock	18,335	182	201,493						201,675
Available-for-sale securities, Fair value adjustment				14,155				14,155	14,155
Net income					31,670			31,670	31,670
Comprehensive income								$45,825	
Restricted stock issuance	60	1	793			(794)			—
Amortization of restricted stock						40			40
Dividends declared—$2.00 per share					(37,015)				(37,015)
Balance, December 31, 2002	25,346	$253	$256,610	$ 14,860	$ (5,218)	$(754)	$(229)		$265,522
Issuance of common stock	17,361	174	232,401						232,575
Retired Treasury Stock			(229)				229		0
Available-for-sale securities, Fair value adjustment				(36,793)				(36,793)	(36,793)
Net income					50,195			50,195	50,195
Comprehensive income								$13,402	
DER adjustment			127		(127)				0
Amortization of restricted stock						79			79
Dividends declared—$1.56 per share					(54,181)				(54,181)
Balance, December 31, 2003	42,707	$427	$488,909	$(21,933)	$ (9,331)	$(675)	$ 0		$457,397

See notes to financial statements.

ANWORTH MORTGAGE ASSET CORPORATION

STATEMENTS OF CASH FLOWS
(in thousands)

	For the year ended December 31, 2003	For the year ended December 31, 2002	For the year ended December 31, 2001
Operating Activities:			
Net income	$ 50,195	$ 31,670	$ 3,706
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization	38,934	14,248	1,186
Realized gain on sale	(3,497)	(4,709)	(430)
Amortization of restricted stock	79	40	—
Non-cash portion of costs incurred in acquiring external manager	—	3,180	—
Increase in accrued interest receivable	(5,334)	(9,380)	(1,203)
Decrease (increase) in prepaid expenses and other	984	(1,192)	3
Increase (decrease) in accrued interest payable	4,740	8,651	(413)
Decrease (increase) in accrued expenses and other	(467)	1,011	829
Net cash provided by operating activities	85,634	43,519	3,678
Investing Activities:			
Available-for-sale securities:			
Purchases	(3,560,512)	(2,855,365)	(300,303)
Proceeds from sales	174,879	272,512	5,387
Proceeds from principal maturities and prepayments	1,497,654	538,563	51,690
Net cash used in investing activities	(1,887,979)	(2,044,290)	(243,226)
Financing Activities:			
Net borrowings from reverse repurchase agreements	1,621,821	1,828,563	203,416
Proceeds from common stock issued, net	232,575	198,495	35,127
Dividends paid	(52,761)	(25,671)	(2,599)
Net cash provided by (used in) financing activities	1,801,635	2,001,387	235,944
Net decrease (increase) in cash and cash equivalents	(710)	616	(3,604)
Cash and cash equivalents at beginning of period	906	290	3,894
Cash and cash equivalents at end of period	$ 196	$ 906	$ 290
Supplemental Disclosure of Cash Flow Information, Cash paid for interest	$ 40,921	$ 20,925	$ 6,776
Supplemental Disclosure of Non-Cash Investing and Financing Activities			
Mortgage securities purchased, not yet settled	$ —	$ —	$ 40,819
Common Stock issued in connection with acquisition of external manager	$ —	$ 3,180	$ —
Restricted Stock issued	—	794	—
Retirement of Treasury Stock	229	—	—

See notes to financial statements.

ANWORTH MORTGAGE ASSET CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME (in thousands)

	For the Year Ended December 31,		
	2003	2002	2001
Net Income	$ 50,195	$31,670	$3,706
Unrealized holding (losses)/gains	(36,793)	14,155	1,891
Comprehensive Income	$ 13,402	$45,825	$5,597

See notes to financial statements.

NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Anworth Mortgage Asset Corporation (the "Company") was incorporated in Maryland on October 20, 1997. The Company commenced its operations of purchasing and managing an investment portfolio of primarily adjustable-rate mortgage-backed securities on March 17, 1998, upon completion of the initial public offering of its common stock.

On November 3, 2003, we formed a wholly-owned subsidiary called Belvedere Trust Mortgage Corporation, or Belvedere Trust. Belvedere Trust was formed as a qualified REIT subsidiary to acquire and own mortgage loans, with a focus on the high credit-quality jumbo adjustable rate, hybrid and second-lien mortgage markets. Belvedere Trust was also formed with the intent of securitizing the mortgage loans it acquires and selling mortgage-backed securities in the capital markets. Subsequent to year end, we made an initial investment of $25 million in Belvedere Trust to capitalize its initial mortgage operations. We have also formed BT Management Company, L.L.C., or BT Management, a Delaware limited liability company that is owned 50% by us, 27.5% by Claus Lund, the Chief Executive Officer of Belvedere Trust, 17.5% by Russell J. Thompson, the Chief Financial Officer of Belvedere Trust, and 5% by Lloyd McAdams, our Chairman and Chief Executive Officer. BT Management has entered into a management agreement with Belvedere Trust pursuant to which BT Management will manage the day-to-day operations of Belvedere Trust in exchange for an annual base management fee and a quarterly incentive fee.

BASIS OF PRESENTATION AND CONSOLIDATION

The accompanying consolidated financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles ("GAAP") utilized in the United States. The preparation of financial statements in conformity with GAAP 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. The consolidated financial statements of the Company include the accounts of all wholly owned subsidiaries, significant intercompany accounts and transactions have been eliminated.

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

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand and highly liquid investments with original maturities of three months or less. The carrying amount of cash equivalents approximates their fair value.

SECURITIES

The Company invests primarily in adjustable-rate mortgage pass-through certificates and hybrid adjustable-rate mortgage-backed securities ("ARM" securities). Hybrid ARM securities have an initial interest rate that is fixed for a certain period, usually three to five years, and then adjusts annually for the remainder of the term of the loan. The Company structures its investment portfolio to be diversified with a variety of prepayment characteristics, investing in mortgage-related assets with prepayment prohibitions and penalties, investing in certain mortgage security structures that have prepayment protections, and purchasing mortgage related assets at a premium and at a discount.

The Company classifies its investments as either trading investments, available-for-sale investments or held-to-maturity investments. Management determines the appropriate classification of the securities at the time they are acquired and evaluates the appropriateness of such classifications at each balance sheet date. The Company currently classifies all of its securities as available-for-sale. All assets that are classified as available-for-sale are carried at fair value and unrealized gains or losses are included in other comprehensive income or loss as a component of stockholders' equity.

Although the Company generally intends to hold its mortgage-backed securities ("MBS") until maturity, it may, from time to time, sell any of its MBS as part of the overall management of its business. The available-for-sale designation provides the Company with the flexibility to sell its MBS in order to act on potential future market opportunities, changes in economic conditions and to meet other general corporate purposes.

Interest income on our mortgage-backed securities is accrued based on the actual coupon rate and the outstanding principle amount of the underlying mortgages. Premiums and discounts are amortized or accreted into interest income over the lives of the securities using the effective interest yield method adjusted for the effects of estimated prepayments based on the Statement of Financial Accounting Standards, or SFAS, No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases—an amendment of FASB Statements No. 13, 60, and 65 and a rescission of FASB Statement No. 17. Our policy for estimating prepayments speeds for calculating the effective yield is to evaluate historical performance, street consensus prepayment speeds and current market conditions. If our estimate of prepayments is incorrect, we may be required to make an adjustment to the amortization or accretion of premiums and discounts that would have an impact on future income.

Securities are recorded on the date the securities are purchased or sold (the trade date). Realized gains or losses from securities transactions are determined based on the specific identified cost of the securities.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company periodically enters into derivative transactions, in the form of forward purchase commitments, which are intended to hedge its exposure to rising rates on funds borrowed to finance our investments in securities. The Company has designated these transactions as cash flow hedges. The Company also enters into derivative transactions also in the form of forward purchase commitments, which are not designated as hedges.

As the Company enters into hedging transactions, it formally documents the relationship between the hedging instruments and the hedged items. The Company has also documented its risk-management policies, including objectives and strategies, as it relates to its hedging activities. The Company assesses, both at inception of the hedging activity and on an on-going basis, whether or not the hedging activity is highly effective. When it is determined that a hedge is not highly effective, the Company discontinues hedge accounting prospectively. As of December 31, 2003, the Company had no derivative instruments outstanding.

CREDIT RISK

At December 31, 2003, the Company had limited its exposure to credit losses on its portfolio of ARM securities by purchasing primarily securities from Federal Home Loan Mortgage Corporation ("FHLMC") and Federal National Mortgage Association ("FNMA"). The payment of principal and interest on the FHLMC and FNMA mortgage-backed securities are guaranteed by those respective agencies. At December 31, 2003, because of the government agencies' guarantee, all of the Company's mortgage-backed securities have an implied "AAA" rating.

Other-than-temporary losses on investment securities, as measured by the amount of decline in estimated fair value attributable to factors that are considered to be other-than-temporary, are charged against income, resulting in an adjustment of the cost basis of such securities. The following are among, but not all of, the factors considered in determining whether and to what extent an other-than-temporary impairment exists: (i) the expected cash flow from the investment; (ii) whether there has been an other-than-temporary deterioration of the credit quality of the underlying mortgages; (iii) the credit protection available to the related mortgage pool for MBS; (iv) any other market information available, including analysts assessments and statements, public statements and filings made by the debtor, or counterparty; (v) management's internal analysis of the security, considering all known relevant information at the time of assessment; and (vi) the magnitude and duration of historical decline in market prices. Because management's assessments are based on factual information as well as subjective information available at the time of assessment, the determination as to whether an other-than-temporary decline exists and, if so, the amount considered impaired is also subjective and, therefore, constitutes material estimates that are susceptible to a significant change. At December 31, 2003 and December 31,2002, the Company had no assets on which an impairment charge had been taken or a provision for loss had been established.

The following table shows our investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2003.

	Less than 12 months		12 months or more		Total	
	(in thousands)					
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Federal agency mortgage-backed securities	3,037,368	(26,479)	161,404	(1,220)	3,198,772	(27,699)

INCOME TAXES

The Company intends to elect to be taxed as a Real Estate Investment Trust ("REIT") and to comply with the provisions of the Internal Revenue Code with respect thereto (the "Code"). Accordingly, the Company is not subject to Federal income tax to the extent that its distributions to stockholders satisfy the REIT requirements and certain asset, income and stock ownership tests are met.

STOCK-BASED COMPENSATION

SFAS 123, "Accounting for Stock-Based Compensation," amended by SFAS 148, "Accounting for Stock-Based Compensation—Transition and Disclosure," encourages companies to measure compensation cost of stock-based awards based on their estimated fair value at the date of grant and recognize that amount over the related service period. We believe the existing stock option valuation models do not necessarily provide a transparent measure of the fair value of stock-based awards. Therefore, as permitted by SFAS 148, we apply the existing accounting rules under APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. In general, as the exercise price of all options granted under these plans is equal to the market price of the underlying common stock on the grant date, no stock-based employee compensation cost is recognized in net income (loss). In addition, under these plans, options to purchase shares of common stock may be granted at less than fair market value, which results in compensation expense equal to the difference between the market value on the date of grant and the purchase price. This expense is recognized over the vesting period of the shares in net income (loss).

As required by SFAS 148, we provide pro forma net income (loss) and pro forma net income (loss) per common share disclosures for stock-based awards made during fiscal 2003, 2002 and 2001 as if the fair-value-based method defined in SFAS 123 had been applied.

The fair value of the following stock-based awards was estimated using the Black-Scholes model with the following weighted-average assumptions for fiscal years ended December 31:

	2003	2002	2001
Net income—as reported (in thousands)	$ 50,195	$ 31,670	$ 3,706
Stock-based compensation costs	$ 197	$ 28	$ 261
Net income—pro forma (in thousands)	$ 49,998	$ 31,642	$ 3,445
Basic earnings per share—as reported	$ 1.52	$ 1.81	$ 1.52
Basic earnings per share—pro forma	$ 1.52	$ 1.81	$ 1.41
Diluted earnings per share—as reported	$ 1.52	$ 1.80	$ 1.50
Diluted earnings per share—pro forma	$ 1.51	$ 1.80	$ 1.40
Assumptions:			
Dividend yield	11%	17%	10%
Expected volatility	32%	27%	41%
Risk-free interest rate	3.52%	4.3%	4.98
Expected lives	8.4 years	8.8 years	7 years

EARNINGS PER SHARE (EPS)

Basic EPS is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted EPS assumes the conversion, exercise or issuance of all potential common stock equivalents unless the effect is to reduce a loss or increase in the income per share. The computation of EPS for the years ended December 31, 2003 and 2002 is as follows:

2003

	Income	Average Shares	Earnings Per Share
	(in thousands except per share data)		
For the year ended December 31, 2003:			
Basic EPS	$50,195	32,927	$1.52
Effect of dilutive securities:			
Stock options	—	185	—
Diluted EPS	$50,195	33,112	$1.52

2002

	Income	Average Shares	Earnings Per Share
	(in thousands except per share data)		
For the year ended December 31, 2002:			
Basic EPS	$31,670	17,461	$ 1.81
Effect of dilutive securities:			
Stock options	—	130	(0.01)
Diluted EPS	$31,670	17,591	$ 1.80

2001

	Income	Average Shares	Earnings Per Share
	(in thousands except per share data)		
For the year ended December 31, 2001:			
Basic EPS	$3,706	2,442	$ 1.52
Effect of dilutive securities:			
Stock options	—	25	(0.02)
Diluted EPS	$3,706	2,467	$ 1.50

COMPREHENSIVE INCOME

Comprehensive income includes net income and the net change in unrealized holding gains and losses on available-for-sale securities.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America 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

In November 2002, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". FIN No. 45 clarifies the requirements relating to the guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees. The disclosure provisions of FIN No. 45 were effective for financial statements of periods that end after December 15, 2002, and the required disclosures are included in these notes to consolidated financial statements. The provisions for initial recognition and measurement are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002. Adoption has not had a material impact on the Company's results of operations and financial position.

In December 2002, the Financial Accounting Standards Board ("FASB") issued Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure" ("FAS 148"). FAS 148, amends FAS 123 by providing alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, FAS 148 amends the disclosure requirements of FAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. FAS 148 did not have a significant impact on the Company.

In January 2003, the FASB issued FASB Interpretation No. 46 "Consolidation of Variable Interest Entities—an interpretation of ARB No. 51" ("FIN 46") in an effort to improve financial reporting by achieving more consistent application of consolidation policies to variable interest entities ("VIEs"). VIEs, as defined in FIN 46, were often referred to as special purposes entities in the past. In general, VIEs lack substantial equity or substance as an entity. Their risks and returns generally inure to those other that the holders of the VIE's equity (who are referred to as "primary beneficiaries"). VIEs are required to be consolidated by their primary beneficiaries. As of December 31, 2003, the Company did not have any interests in VIEs and does not believe that the provisions of FIN 46 will have a material effect on the Company's financial statements.

In October 2001, the FASB issued FAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("FAS 144"). FAS 144 provides new guidance on the recognition of impairment losses on long-lived assets to be held and used or to be disposed of and also broadens the definition of what constitutes a discontinued operation and how the results of a discontinued operation are to be measured and presented. The adoption of FAS 144 on January 1, 2002 did not have a significant impact on the Company.

In May 2003, the FASB issued Financial Accounting Standards No.150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" in an effort to establish standards for classification and measurements of those financial instruments. It requires that an issuer classify a financial instrument within its scope as a liability. Many of those instruments, as stated in FAS 150, were previously classified as equity. This statement is effective at the beginning of the first interim period commencing after June 15, 2004. The provisions of FAS 150 should not have a material effect on the Company's financial statements.

On July 1, 2003, the Company adopted SFAS No 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" (SFAS 149). SFAS 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). In particular, this SFAS 149 clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative and when a derivative contains a financing component that warrants special reporting in the Statement of Cash Flows. This Statement is generally effective for contracts entered into or modified after June 30, 2003 and did not have an impact on the Company's Financial Statements, as no such contracts were entered into during this period.

NOTE 2. SECURITIES

The following table summarizes the Company's mortgage-backed securities ("MBS") classified as available-for-sale as of December 31, 2003 and 2002, which are carried at their fair value (in thousands):

December 31, 2003

	Federal Home Loan Mortgage Corporation	Federal National Mortgage Association	Other Mortgage-backed Securities	Total MBS Assets
Amortized Cost	$1,046,725	$3,000,831	$203,336	$4,250,892
Paydowns receivable	16,894	—	—	16,894
Unrealized gains	1,204	4,562	—	5,766
Unrealized losses	(5,306)	(20,452)	(1,941)	(27,699)
Fair value	$1,059,517	$2,984,941	$201,395	$4,245,853

December 31, 2002

	Federal Home Loan Mortgage Corporation	Federal National Mortgage Association	Other Mortgage-backed Securities	Total MBS Assets
Amortized Cost	$631,329	$1,620,040	$146,605	$2,397,974
Paydowns receivable	17,269	—	—	17,269
Unrealized gains	3,500	12,120	428	16,048
Unrealized losses	(453)	(735)	—	(1,188)
Fair value	$651,645	$1,631,425	$147,033	$2,430,103

December 31, 2003

	ARMs	Hybrids	Fixed	Total
Amortized Cost	$1,133,587	$2,712,628	$404,677	$4,250,892
Paydowns receivable	5,539	11,355	—	16,894
Unrealized gains	1,490	2,036	2,240	5,766
Unrealized losses	(4,903)	(17,615)	(5,181)	(27,699)
Fair value	$1,135,713	$2,708,404	$401,736	$4,245,853

December 31, 2002

	ARMs	Hybrids	Fixed	Total
Amortized Cost	$954,505	$1,110,088	$333,381	$2,397,974
Paydowns receivable	8,960	8,309	—	17,269
Unrealized gains	2,235	8,420	5,393	16,048
Unrealized losses	(1,030)	(158)	—	(1,188)
Fair value	$964,670	$1,126,659	$338,774	$2,430,103

Included in gain on sale of the securities for the years ended December 31, 2003, 2002 and 2001 are gross realized gains of $3,497,040, $4,708,605 and $430,000 and gross realized losses of $0, $0 and $0, respectively. During the year ended December 31, 2003, the Company was not a party to any derivative transactions and there was no derivative gain or loss included in "Accumulated Other Comprehensive Income".

NOTE 3. REVERSE REPURCHASE AGREEMENTS

The Company has entered into reverse repurchase agreements to finance most of its ARM securities. The reverse repurchase agreements are short-term borrowings that bear interest rates that have historically moved in close relationship to LIBOR (London Interbank Offer Rate). At December 31, 2003, these agreements were collateralized by mortgage-backed securities with a fair value of $3,954,019,000.

At December 31, 2003, the repurchase agreements had a weighted average interest rate of 1.51%, an average maturity of 268 days and the following remaining maturities (in thousands):

Within 59 days	$ 527,741
60 to 89 days	193,767
90 to 365 days	2,319,523
Over one year	734,660
	$3,775,691

At December 31, 2002, the repurchase agreements had a weighted average interest rate of 1.92%, an average maturity of 166 days and the following remaining maturities (in thousands):

Within 59 days	$ 689,233
60 to 89 days	361,942
90 to 365 days	848,583
Over one year	254,112
	$2,153,870

NOTE 4. FAIR VALUES OF FINANCIAL INSTRUMENTS

ARM securities and other marketable securities are reflected in the financial statements at estimated fair value. Management bases its fair value estimates for ARM securities and other marketable securities primarily on third-party bid price indications provided by dealers who make markets in these financial instruments when such indications are available. However, the fair value reported reflects estimates and may not necessarily be indicative of the amounts the Company could realize in a current market exchange. Cash and cash equivalents, interest receivable, reverse repurchase agreements and payables for securities purchased are reflected in the financial statements at their costs, which approximates their fair value because of the short-term nature of these instruments.

NOTE 5. PUBLIC OFFERINGS AND CAPITAL STOCK

On August 30, 2002, the Company filed a shelf registration statement on Form S-3 with the Securities and Exchange Commission offering up to $350 million of the capital stock of the Company. The registration statement was declared effective on September 10, 2002. As of December 31, 2003, $165.6 million remained available for issuance under the registration statement.

On May 14, 2003, the Company completed a follow-on offering of our common stock. The Company issued 4,427,500 shares of common stock pursuant to a public offering at a price of $14.10 per share and received net proceeds of $59.0 million, net of underwriting discount and other offering expenses of $0.7755 per share.

On August 18, 2003, the Company completed a follow-on offering of our common stock. The Company issued 4,025,000 shares of common stock pursuant to a public offering at a price of $14.30 per share and received net proceeds of $54.7 million, net of underwriting discount and other offering expenses of $0.7197 per share.

In December 2002, the Company entered into a sales agreement with Cantor Fitzgerald & Co. ("Cantor") to sell up to 4.8 million shares of common stock from time to time through a controlled equity offering program under which Cantor acts as sales agent. Sales of the shares have been and will be made by means of ordinary brokers' transactions on the American Stock Exchange at market prices and through privately negotiated transactions. Commencing February 10, 2003 through the quarter ended December 31, 2003, the Company sold 4.8 million shares under the controlled equity offering program, which provided net proceeds to the Company of approximately $63.25 million. Cantor received an aggregate of approximately $1.1 million, which represents a commission of 1.8% on the gross sales price per share of the sales under the sales agreement through December 31, 2003.

In September 1999, the Company filed with the Securities and Exchange Commission its Dividend Reinvestment and Direct Stock Purchase Plan. The plan allows shareholders and non-shareholders to purchase shares of the Company's common stock and to reinvest dividends in additional shares of the Company's common stock. The plan was amended in June 2002 and December 2002 to increase the number of shares available thereunder. Through December 31, 2003 The Company raised equity capital of $88.4 million as a result of this plan, $55.5 million of which was raised in 2003.

The Company's authorized capital includes 20 million shares of $.01 par value preferred stock. The preferred stock may be issued in one or more classes or series, with such distinctive designations, rights and preferences as determined by the Board of Directors.

During the year ended December 31, 2003, the Company declared dividends to stockholders totaling $1.56 per share, of which $1.23 was paid in 2003 and $0.33 was paid on January 27, 2004. For Federal income tax purposes, such dividends are ordinary income ($1.44) and long-term capital gain dividends ($0.03) to the Company's stockholders. The remaining dividends of $0.09 per share, which comprise a portion of the dividends declared by the Company in the fourth quarter of 2003 and paid on January 27, 2004, will be treated as a 2004 distribution for Federal income tax purposes.

NOTE 6. TRANSACTIONS WITH AFFILIATES

2002 Incentive Compensation Plan

The Company adopted its 2002 Incentive Compensation Plan which became effective on the effective date of the Merger. Under the 2002 Incentive Compensation Plan, eligible employees of the Company have the opportunity to earn incentive compensation for each fiscal quarter. The total aggregate amount of compensation that may be earned by all employees equals a percentage of taxable net income, before incentive compensation, in excess of the amount that would produce an annualized return on average net worth equal to the ten-year US Treasury Rate plus 1% (the "Threshold Return").

In any fiscal quarter in which the Company's taxable net income is an amount less than the amount necessary to earn the Threshold Return, the Company will calculate negative incentive compensation for that fiscal quarter which will be carried forward and will offset future incentive compensation earned under the plan, but only with respect to those participants who were participants during the fiscal quarter(s) in which negative incentive compensation was generated.

The percentage of taxable net income in excess of the Threshold Return earned under the plan by all employees is calculated based on the Company's quarterly average net worth, as defined in the Incentive Compensation Plan. The percentage rate used in this calculation is based on a blended average of the following tiered percentage rates:

- 25% for the first $50 million of average net worth;
- 15% for the average net worth between $50 million and $100 million;
- 10% for the average net worth between $100 million and $200 million;
- 5% for the average net worth in excess of $200 million.

The 2002 Incentive Compensation Plan requires that the Company pay all amounts earned thereunder each quarter (subject to offset for accrued negative incentive compensation), and the Company will be required to pay a percentage of such amounts to certain of its executives pursuant to the terms of their employment agreements. For the year ended December 31, 2003, eligible employees under the 2002 Incentive Compensation Plan earned $3,899,000 in incentive compensation. For the year ended December 31, 2002, eligible employees under the 2002 Incentive Compensation Plan earned $3,055,000 in incentive compensation. For the year ended December 31, 2001, the Company was externally managed and did not incur expenses under the 2002 Incentive Compensation Plan.

Employment Agreements

Upon the closing of the Merger, the Company assumed the existing employment agreements of Lloyd McAdams, Joseph McAdams and Heather U. Baines. Such agreements were modified by the addenda entered into between the Company and each of the executives as described below. Pursuant to the terms of the employment agreements, Lloyd McAdams serves as the Company's President, Chairman and Chief Executive Officer, and Heather U. Baines and Joseph McAdams serve as the Company's Executive Vice Presidents. Heather U. Baines receives a $50,000 annual base salary, Lloyd McAdams receives a base salary equal to the greater of (i) $120,000 per annum, or (ii) a per annum amount equal to 0.125% of the Company's book value, not to exceed $250,000. Joseph McAdams receives a base salary equal to the greater of (i) $100,000 per annum, or (ii) a per annum amount equal to 0.10% of the Company's book value, not to exceed $250,000.

These employment agreements, as modified by the addenda, also have the following provisions:

- the three executives are entitled to participate in the 2002 Incentive Compensation Plan and each of these individuals are provided a minimum percentage of the amounts earned under such plan. Lloyd McAdams is entitled to 45% of all amounts paid under the plan; Joe McAdams is entitled to 25% of all amounts paid under the plan, and Heather U. Baines is entitled to 5% of all amounts paid under the plan. The three executives may be paid up to 50% of their respective incentive compensation earned under such plan in the form of Company common stock;
- the incentive compensation plan may not be amended without the consent of the three executives;
- in the event of a registered public offering of the Company's shares, the three executives are entitled to piggyback registration rights in connection with such offering;
- in the event any of the three executives is terminated without "cause" or if they terminate for "good reason", or in the case of Lloyd McAdams or Joseph McAdams, their employment agreements are not renewed, then the executives would be entitled to: (1) all base salary due under the contracts, (2) all discretionary bonus due under the contracts, (3) a lump sum payment of an amount equal to three years of the executive's then-current base salary, (4) payment of COBRA medical coverage for eighteen months, (5) immediate vesting of all pension benefits, (6) all incentive compensation to which the executives would have been entitled to under the contract prorated through the termination date, and (7) all expense reimbursements and benefits due and owing the executives through the termination. In addition, under these circumstances Lloyd McAdams and Joseph McAdams would each be entitled to a lump sum payment equal to 150% of the greater of (i) the highest amount paid or payable to all employees under the 2002 Incentive Compensation Plan during any one of the three fiscal years prior to their termination, and (ii) the highest amount paid, or that would be payable, under the plan during any of the three fiscal years following their termination. Ms. Baines would also be entitled to a lump sum payment equal to all incentive compensation that Ms. Baines would have been entitled to under the plan during the three year period following her termination;
- the three executives received restricted stock grants of 20,000 shares each, which grants vest in equal, annual installments over ten years following the effective date of the merger; and
- the three executives are each subject to a one-year non-competition provision following termination of their employment.

In connection with the 2002 Incentive Compensation Plan, the company granted 60,000 shares of restricted stock to the above executives. The value of such shares is reflected on the Company's balance sheet as a reduction to stockholders' equity. This amount is being amortized to expense over the ten year restricted period until such shares vest and is accounted for as unearned restricted stock.

Agreements with Pacific Income Advisers, Inc.

On June 13, 2002, the Company entered into a sublease with Pacific Income Advisers, Inc. (“PIA”), a company owned by a trust controlled by officers of the Company. On July 8, 2003, the Company entered into an amendment to the sublease. Under the sublease, the Company leases approximately 5,500 square feet of office space from PIA and currently pays $45.36 per square foot in rent to PIA. The sublease runs through June 30, 2012 unless earlier terminated pursuant to the master lease. During the year ended December 31, 2003, the Company paid $249,269 in rent to PIA under the sublease which is included in “Other Expenses” on the Statements of Operations.

The future minimum lease commitment is as follows:

Year	2004	2005	2006	2007	Thereafter	Total Commitment
Commitment Amount	$256,960	$264,660	$272,580	$280,775	$1,209,890	$2,284,865

On October 14, 2002, the Company entered into an administrative agreement with PIA. Under the administrative agreement, PIA provides administrative services and equipment to the Company in the nature of accounting, human resources, operational support and information technology, and the Company pays an annual fee of 7 basis points on the first $225,000,000 of stockholder equity and 3.5 basis points thereafter (paid quarterly in advance) for those services. The administrative agreement is for an initial term of one year and will renew for successive one year terms thereafter unless either party gives notice of termination at least 90 days before the expiration of the then current annual term. The Company may also terminate the administrative agreement upon 30 days notice for any reason and immediately if there is a material breach by PIA. Included in “Other Expenses” on the Statement of Operations are fees of $197,360 paid to PIA in connection with this agreement.

Deferred Compensation Plan

On January 15, 2003, the Company adopted the Anworth Mortgage Asset Corporation Deferred Compensation Plan (the “Deferred Compensation Plan”), which permits eligible officers of the Company to defer the payment of all or a portion of their cash compensation in excess of the $1,000,000 annual limitation on deductible compensation imposed by Section 162(m) of the Code. Under this limitation, compensation paid to our chief executive officer and our four other highest paid officers is not deductible by us for income tax purposes to the extent the amount paid to any such officer exceeds $1,000,000 in any calendar year, unless such compensation qualifies as performance-based compensation under Section 162(m). The Company’s board of directors designates the eligible officers who may participate in the Deferred Compensation Plan from among the group consisting of the Company’s chief executive officer and our other four highest paid officers. To date, the board has designated Lloyd McAdams, our President, Chairman and Chief Executive Officer, and Joseph McAdams, our Executive Vice President and Chief Investment Officer, as the only officers who may participate in the Deferred Compensation Plan. Each eligible officer becomes a participant in the Deferred Compensation Plan by making a written election to defer the payment of cash compensation. With certain limited exceptions, the election must be filed with the Company before January 1 of the calendar year in which the compensation will be deferred. The election is effective for the entire calendar year and may not be terminated or modified for that calendar year. If a participant wishes to defer compensation in a subsequent calendar year, a new deferral election must be made before the January 1 of that year.

Amounts deferred under the Deferred Compensation Plan are not being paid to the participant as earned, but are credited to a bookkeeping account maintained by the Company in the name of the participant. The balance in the participant’s account is credited with earnings at a rate of return equal to the annual dividend yield on the Company’s common stock. Each participant is a general unsecured creditor of the Company with respect to all deferrals and earnings credited to his or her account under the Deferred Compensation Plan. A participant's account shall be distributed to the participant: (i) no later than thirty days after the participant's termination of employment with the Company, or (ii) immediately upon the occurrence of a change of control of the Company (as defined the Deferred Compensation Plan). Additionally, the Company may, but is not required to, pay amounts to a participant from his or her account if: (i) the participant's cash compensation in any calendar year is below the $1,000,000 deduction limit imposed by Section 162(m) of the Code, or (ii) the participant's compensation is not otherwise subject to the Section 162(m) limitation. The Company may not, however, pay any amount to a participant under the Deferred Compensation Plan unless the amount has been in the participant's account for at least two years from the end of the calendar year in which the amount was credited to the account. A participant may designate a beneficiary to receive his or her account in the event of the participant's death. Except as described above in this paragraph, or upon the termination of the Deferred Compensation Plan, no amounts may be paid to a participant from his or her account.

NOTE 7. STOCK OPTION PLAN

The Company has adopted the Anworth Mortgage Asset Corporation 1997 Stock Option and Awards Plan (the "Stock Option Plan") which authorizes the grant of options to purchase, as of December 31, 2003, an aggregate of up to 1,800,000 of the outstanding shares of the company's common stock. The plan authorizes the Board of Directors, or a committee of the Board of Directors, to grant incentive stock options ("ISOs") as defined under section 422 of the Internal Revenue Code of 1986, as amended, options not so qualified ("NQSOs"), dividend equivalent rights ("DERs") and stock appreciation rights ("SARs"). The exercise price for any option granted under the Stock Option Plan may not be less than 100% of the fair market value of the shares of common stock at the time the option is granted. As of December 31, 2003, 391,804 shares remained available for future issuance under the Stock Option Plan through any combination of stock options or other awards. The share reserve under the Stock Option Plan automatically increases on the first trading day in January each calendar year by an amount equal to two (2%) percent of the total number of shares of our common stock outstanding on the last trading day of December in the prior calendar year, but in no event will this annual increase exceed 300,000 shares and in no event will the total number of common stock in the share reserve (as adjusted for all such annual increases) exceed 3 million shares.

During the period ended December 31, 1998, the Company had granted 148,000 options at an exercise price of $9 per share and 136,000 DERs. For these options, those granted to officers became exercisable over a three year period following their date of grant, while those granted to directors become exercisable six months after their date of grant. During the year ended December 31, 1999, the Company granted an additional 50,000 options at an exercise price per share of $4.60 and 12,500 DER's. These options became exercisable three years after the date of grant. During the year ended December 31, 2001, the Company granted an additional 140,856 options at exercise prices per share which range from $6.70 to $7.81. These options became exercisable on the date of grant. During the year ended December 31, 2002, the Company granted an additional 494,245 options at exercise prices which range from $9.45 to $11.25. These options became exercisable six months to one year following the date of grant, depending on when the option was granted. During the year ended December 31, 2003, the Company granted an additional 427,300 options on May 1, 2003 at an exercise price of $13.80. These options became exercisable one year from the date of grant. All options granted in 2003 expire in 2013. The DERs are payable only when their associated stock options are exercised, thereby reducing the effective strike price of such options. The Company recognizes compensation expense at the time of option grant, if the average market price of the stock exceeds the effective strike price of the options. Since inception, the Company has recorded $73,000 in compensation expense related to the DER's. During the quarter ended June 30, 2001, 114,000 of the outstanding DER's were truncated, and shortly after June 30, 2001 the remaining 34,500 DER's were truncated. After the dividend declared on April 20, 2001, no more dividends accrued to the DER's, thereby fixing the effective strike price of the options.

A summary of stock option transactions for the plans follows:

	2003		2002		2001	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year(1)	655,719	$10.096	395,539	$ 7.577	254,683	$7.889
Granted	427,300	13.80	494,245	10.712	140,856	7.014
Exercised	(83,305)	9.63	(234,605)	7.149	—	—
Expired	—	—	—	—	—	—
Outstanding, end of year(1)	999,174	$11.719	655,179	$10.096	395,539	$7.577
Weighted average fair value of options granted during the year	0.92		0.31		1.32	
Options exercisable at year end(1)	571,874		299,179		288,856	

(1) Includes DERs

The following table summarizes information about stock options outstanding at December 31, 2003:

Exercise Price	Effective Exercise Price Including DERs	Options Outstanding	Remaining Contractual Life (Yrs.)	Exercisable at 12/31/03
$ 4.60	$ 4.35	2,644(1)	5.3	2,644(1)
$ 6.70	$ 6.70	520	7.5	520
$ 7.10	$ 7.10	9,000	7.6	9,000
$ 7.37	$ 7.37	—	2.5	—
$ 7.81	$ 7.81	25,000	2.6	25,000
$ 9.00	$ 6.60	81,465(1)	4.2	81,465(1)
$ 9.45	$ 9.45	127,245	8.1	127,245
$11.20	$11.20	306,000	8.8	306,000
$11.25	$11.25	20,000	8.8	20,000
$13.80	$13.80	427,300	9.3	—
		999,174	8.4	571,874

(1) Includes DERs

NOTE 8. SUMMARIZED QUARTERLY RESULTS (UNAUDITED)

The following tables summarize quarterly results for the years ended December 31, 2003 and 2002 (unaudited). Earnings per share amounts for the each quarter and the full years have been calculated separately. Accordingly, quarterly amounts may not add to the annual amounts because of substantial differences in the average shares outstanding during each period and, with regard to diluted earnings per share amounts they may also differ because of the inclusion of the effect of potentially dilutive securities only in the periods in which such effect would have been dilutive.

For the year ended December 31, 2003:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Interest and dividend income	$ 23,327	$ 24,370	$ 22,774	$ 29,606
Interest expense	(10,210)	(10,802)	(11,647)	(13,002)
Net interest income	13,117	13,568	11,127	16,604
Gain on sale	652	2,140	706	—
Expenses	(1,947)	(2,136)	(1,466)	(2,170)
Net Income	$ 11,822	$ 13,572	$ 10,367	$ 14,434
Basic earnings per share	$ 0.46	$ 0.45	$ 0.29	$ 0.36
Diluted earnings per share	$ 0.46	$ 0.45	$ 0.29	$ 0.35
Average number of shares outstanding (diluted)	25,926	30,147	35,618	40,660

For the year ended December 31, 2002:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Interest and dividend income	$ 7,925	$12,217	$ 23,134	$ 23,579
Interest expense	(3,007)	(5,114)	(10,469)	(10,986)
Net interest income	4,918	7,103	12,665	12,593
Gain on sale	223	1,433	1,838	1,215
Expenses	(1,026)	(4,847)	(2,402)	(2,043)
Net Income	$ 4,115	$ 3,689	$ 12,101	$ 11,765
Basic earnings per share	$ 0.45	$ 0.29	$ 0.52	$ 0.48
Diluted earnings per share	$ 0.45	$ 0.29	$ 0.52	$ 0.48
Average number of shares outstanding (diluted)	9,214	12,823	23,433	24,561

NOTE 9. SUBSEQUENT EVENTS

Belvedere Trust was formed with the intent of securitizing the mortgage loans it acquires and selling mortgage-backed securities in the capital markets. Subsequent to the year ended December 31, 2003, we have made an initial investment of $25 million in Belvedere Trust to capitalize its initial mortgage operations. We have also formed BT Management Company, L.L.C., or BT Management, a Delaware limited liability company that is owned 50% by us, 27.5% by Claus Lund, the Chief Executive Officer of Belvedere Trust, 17.5% by Russell J. Thompson, the Chief Financial Officer of Belvedere Trust, and 5% by Lloyd McAdams, our Chairman and Chief Executive Officer. BT Management has entered into a management agreement with Belvedere Trust pursuant to which BT Management will manage the day-to-day operations of Belvedere Trust in exchange for an annual base management fee and a quarterly incentive fee.

EXHIBIT INDEX

Exhibit Number	Description
3.1(1)	Amended Articles of Incorporation
3.2(2)	Articles of Amendment
3.3(1)	Bylaws
4.1(1)	Specimen Common Stock certificate
4.2(3)	Specimen Preferred Stock certificate
10.1(2)	1997 Stock Option and Awards Plan, as amended
10.2(4)	Dividend Reinvestment and Stock Purchase Plan
10.3(5)	2002 Incentive Compensation Plan
10.4(5)	Agreement and Plan of Merger dated April 18, 2002 by and among Anworth Mortgage Asset Corporation (“Anworth”), Anworth Mortgage Advisory Corporation (the “Manager”) and the shareholder of the Manager
10.5(6)	Employment Agreement dated January 1, 2002, between the Manager and Lloyd McAdams
10.6(6)	Employment Agreement dated January 1, 2002, between the Manager and Heather U. Baines
10.7(6)	Employment Agreement dated January 1, 2002, between the Manager and Joseph E. McAdams
10.8(6)	Addendum to Employment Agreement dated April 18, 2002, among Anworth, the Manager and Lloyd McAdams
10.9(6)	Addendum to Employment Agreement dated April 18, 2002, among Anworth, the Manager and Heather U. Baines
10.10(6)	Addendum to Employment Agreement dated April 18, 2002, among Anworth, the Manager and Joseph E. McAdams
10.11(6)	Second Addendum to Employment Agreement dated as of June 13, 2002 by and among Anworth and Joseph E. McAdams
10.12(6)	Sublease dated June 13, 2002, between Anworth and Pacific Income Advisers, Inc.
10.13(7)	Amendment to Sublease dated July 8, 2003 between Anworth and Pacific Income Advisers, Inc.
10.14(8)	Administrative Agreement dated October 14, 2002, between Anworth and Pacific Income Advisers, Inc.
10.15(9)	Deferred Compensation Plan
10.16(10)	BT Management Company, L.L.C. (“BT Management”) Operating Agreement dated November 3, 2003
10.17(10)	Management Agreement dated November 3, 2003 between BT Management and Belvedere Trust Mortgage Corporation
10.18(10)	Employment Agreement dated November 3, 2003 between BT Management and Claus Lund
10.19(10)	Employment Agreement dated November 3, 2003 between BT Management and Russell J. Thompson
21.1	List of Subsidiaries
23.1	Consent of BDO Seidman, LLP
23.2	Consent of PricewaterhouseCoopers LLP
31.1	Certification of the Chief Executive Officer, as required by Rule 13a-14(a) of the Securities Exchange Act of 1934
31.2	Certification of the Chief Financial Officer, as required by Rule 13a-14(a) of the Securities Exchange Act of 1934

Exhibit Number	Description
32.1	Certifications of the Chief Executive Officer provided pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certifications of the Chief Financial Officer provided pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(1) Incorporated by reference from our Registration Statement on Form S-11, Registration No. 333-38641, which became effective under the Securities Act of 1933, as amended (the "Act"), on March 12, 1998.

(2) Incorporated by reference from our Definitive Proxy Statement filed pursuant to Section 14(a) of the Securities Exchange Act of 1934, as filed with the Securities and Exchange Commission on May 14, 2003.

(3) Incorporated by reference from our Registration Statement on form S-3, Registration No. 333-85036, which became effective under the Act on June 13, 2002.

(4) Incorporated by reference from Post-Effective Amendment No. 1 to our Registration Statement on Form S-3, Registration No. 333-110744, which became effective under the Act on February 20, 2004.

(5) Incorporated by reference from our Definitive Proxy Statement filed pursuant to Section 14(a) of the Securities Exchange Act of 1934, as filed with the Securities Exchange Commission on May 17, 2002.

(6) Incorporated by reference from our Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, as filed with the Securities and Exchange Commission on August 14, 2002.

(7) Incorporated by reference from our Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, as filed with the Securities and Exchange Commission on August 8, 2003.

(8) Incorporated by reference from our Quarterly Report on Form 10-Q for the quarter ended September 30, 2002, as filed with the Securities and Exchange Commission on November 14, 2002.

(9) Incorporated by reference from our Annual Report on Form 10-K for the year ended December 31, 2002, as filed with the Securities and Exchange Commission on March 26, 2003.

(10) Incorporated by reference from our Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, as filed with the Securities and Exchange Commission on November 13, 2003.

Corporate Information

DIRECTORS

Lloyd McAdams
Chairman of the Board of Directors, President and Chief Executive Officer

Joseph E. McAdams
Chief Investment Officer, Executive Vice President and Director

Lee A. Ault III
Director

Charles H. Black
Director

Joe E. Davis
Director

Charles F. Smith
Director

EXECUTIVE OFFICERS

Thad M. Brown
Chief Financial Officer and Secretary

Heather U. Baines
Executive Vice President

Evangelos Karagiannis
Vice President

Bistra Pashamova
Vice President

EXECUTIVE OFFICES

Anworth Mortgage Asset Corporation
1299 Ocean Avenue, Suite 250
Santa Monica, CA 90401
Tel. (310) 255-4493

Transfer Agent and Registrar

American Stock Transfer & Trust Company
59 Maiden Lane
Plaza Level
New York, NY 10038
Tel. (212) 936-5100

Independent Auditors

BDO Seidman, LLP
1900 Avenue of the Stars, 11th Floor
Los Angeles, CA 90067

Legal Counsel

Allen Matkins Leck Gamble and Mallory LLP
1901 Avenue of the Stars, Suite 1800
Los Angeles, CA 90067

Investor Relations

Any shareholder wishing a copy of the Company's annual report on Form 10-K or the quarterly report on Form 10-Q, as filed with the Securities and Exchange Commission, may obtain such report, without charge, upon written request to the Company, Attn: Investor Relations.

Stock Listing

The Company's common stock is traded on the New York Stock Exchange (Symbol: ANH).

Annual Stockholders' Meeting

The annual stockholders' meeting will be held at 10:00 AM on Thursday, May 27, 2004 at the offices of the Company (address above).

Anworth Mortgage Asset Corporation
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Santa Monica, CA 90401
phone: (310) 255-4493
fax: (310) 434-0070
www.anworth.com
Traded on the New York Stock Exchange, symbol ANH