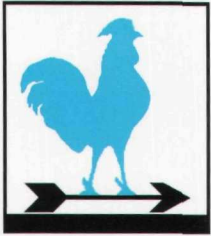


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Filings Services
May 5, 2008
SNL Financial
1-800-969-4121



Anworth Mortgage Asset Corporation

Annual Report

2007

SELECTED FINANCIAL DATA

The selected financial data as of December 31, 2007 and 2006 and for the years ended December 31, 2007, 2006 and 2005 are derived from our audited financial statements included in this Annual Report on Form 10-K. The selected financial data as of December 31, 2005, 2004 and 2003 and for the years ended December 31, 2004 and 2003 are derived from audited financial statements not included in this Annual Report on 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 Annual Report on Form 10-K beginning on page F-1.

	Year Ended December 31,				
	2003	2004	2005	2006	2007
	(amounts in thousands, except for per share data and days)				
Consolidated Statements of Income Data					
Days in period	365	366	365	365	365
Interest income net of amortization of premium and discount	\$ 100,077	\$ 127,239	\$ 159,248	\$ 206,287	\$ 248,831
Interest expense	(45,661)	(70,184)	(131,099)	(202,037)	(224,884)
Net interest income	\$ 54,416	\$ 57,055	\$ 28,149	\$ 4,250	\$ 23,947
Net gain (loss) on sale of assets	3,497	100	—	(10,207)	(23,442)
Net loss on derivative instruments	—	—	—	—	(147)
Expenses	(7,718)	(7,175)	(5,874)	(5,484)	(5,536)
Income (loss) from continuing operations	\$ 50,195	\$ 49,980	\$ 22,275	\$ (11,441)	\$ (5,178)
Income (loss) from discontinued operations	—	5,825	6,610	(2,763)	(151,288)
Net income (loss)	\$ 50,195	\$ 55,805	\$ 28,885	\$ (14,204)	\$ (156,466)
Dividends on preferred stock	—	(369)	(3,901)	(4,044)	(4,749)
Net income (loss) available to common stockholders	\$ 50,195	\$ 55,436	\$ 24,984	\$ (18,248)	\$ (161,215)
Basic earnings (loss) per common share:					
Continuing operations	\$ 1.52	\$ 1.10	\$ 0.39	\$ (0.34)	\$ (0.21)
Discontinued operations	—	0.13	0.14	(0.06)	(3.26)
Total basic earnings (loss) per common share	\$ 1.52	\$ 1.23	\$ 0.53	\$ (0.40)	\$ (3.47)
Average number of shares outstanding	32,927	45,244	47,103	45,430	46,483
Diluted earnings (loss) per common share:					
Continuing operations	\$ 1.52	\$ 1.10	\$ 0.39	\$ (0.34)	\$ (0.21)
Discontinued operations	—	0.12	0.14	(0.06)	(3.26)
Total diluted earnings (loss) per common share	\$ 1.52	\$ 1.22	\$ 0.53	\$ (0.40)	\$ (3.47)
Average number of diluted shares outstanding	33,112	45,329	47,128	45,430	46,483
	As of December 31,				
	2003	2004	2005	2006	2007
	(amounts in thousands, except for per share data)				
Consolidated Balance Sheets Data					
Agency MBS	\$4,245,853	\$4,588,541	\$4,524,683	\$4,678,907	\$4,662,547
Assets of discontinued operations	101	2,702,910	2,622,375	1,858,789	38
Total assets	\$4,263,274	\$7,319,070	\$7,184,249	\$6,687,389	\$4,797,515
Repurchase agreements (Anworth)	\$3,775,691	\$4,172,930	\$4,099,410	\$4,329,921	\$4,227,100
Junior subordinated notes	—	—	37,380	37,380	37,380
Liabilities of discontinued operations	—	2,603,133	2,517,727	1,756,060	7,834
Total liabilities	\$3,805,877	\$6,812,033	\$6,701,150	\$6,196,387	\$4,367,959
Series B Preferred Stock	—	—	—	—	28,108
Stockholders' equity (common and Series A preferred)	\$ 457,397	\$ 507,036	\$ 483,099	\$ 491,002	\$ 401,448
Number of common shares outstanding	42,707	46,497	45,397	45,609	57,289
Book value per common share	\$ 10.71	\$ 10.31	\$ 9.61	\$ 9.74	\$ 6.15



Dear Fellow Stockholders,

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

During 2007, we incurred a net loss to common stockholders of \$161.2 million, or \$(3.47) per common share, compared to 2006's net loss to common stockholders of \$18.2 million, or \$(0.40) per common share. Dividends declared during 2007 were \$0.27 per common share.

This net loss in 2007 was primarily the result of a \$151.3 million loss at our discontinued operations at Belvedere Trust Mortgage Corporation, or Belvedere Trust, and a loss from continuing operations of \$5.2 million (which includes a loss of approximately \$23.4 million on the sale of \$904 million of our Agency MBS and Non-Agency MBS).

As we have completed the write-off of our investment in Belvedere Trust, our focus now is investing in agency mortgage-backed securities, or MBS. We believe that our portfolio yield will continue to increase as the Federal Reserve continues to lower the Federal Funds rate.

Our Business Strategy

When you review our consolidated financial statements, you will notice that the calculation of our business profitability has six basic components which, when combined, result in our net income to common stockholders for the year. A simplified formula that can be used to calculate our net income is:

Interest Income minus *Interest Expense* minus *Amortization of Premium* minus *Operating Costs*
plus *Capital Gains* equals our *Net Income*.

While most of our stockholders are familiar with these terms, I believe that regularly presenting a description of each is a good idea.

Interest Income—The interest we receive from our investment in residential MBS. This amount was \$269.9 million and, with an average of 46.5 million diluted shares outstanding during 2007, was also \$5.80 per share.

Interest Expense—The interest we pay on the short-term collateralized borrowings that we use to acquire most of our agency residential MBS. During 2007, this amount was \$224.9 million, or \$4.84 per share.

Amortization of Premium—The agency residential MBS which we purchase usually have coupon rates that are higher than comparable quality bonds selling at par. To offset this higher interest rate, we usually are required to pay a premium above the par value of our agency residential MBS. As the mortgage loans are repaid, we expense the premium which we paid to purchase these mortgage assets. During 2007, this amount was \$21.1 million, or \$0.45 per share.

Operating Costs—These costs include all of the expenses normally associated with running a business. Like most businesses, we pay our employees a salary and benefits, and we pay rent on our offices. Due to the complex nature of mortgage analytics, we also utilize expensive computer software and hardware. We also retain lawyers, accountants and other advisers to assist us in the operations of our business. During 2007, this amount was \$5.5 million, or \$0.12 per share, and represented an expense of about 0.11% of the company's \$4.8 billion of total assets.

Capital Gains—Whenever we sell an asset, we will recognize either a gain or loss. Since REIT tax regulations discourage us from making large volumes of sales, these transactions are not frequent. During 2007, net losses from the sales of Agency MBS, Non-Agency MBS and derivative instruments amounted to \$23.5 million, or \$0.50 per share. The loss from discontinued operations was \$151.3 million, or \$3.26 per share. This was due primarily to the losses on sales and impairments of Belvedere Trust's assets and also includes three claims against Belvedere Trust totaling approximately \$8 million, which have been contested, relating to repurchase agreement transactions. Anworth is neither a co-party to nor a guarantor of Belvedere Trust's repurchase agreements or any claims against Belvedere Trust. Relative to the contested claims, we believe that there will be an increase to earnings after the dissolution of Belvedere Trust, although there can be no assurances as to the timing of such dissolution.

Net Income—After we have used part of our interest income to pay these expenses, what is left is our net income. During 2007, we paid dividends to our preferred stockholders in the amount of \$4.7 million, or \$0.10 per share.

Our Stock's Return

Anworth's year-end closing price on the New York Stock Exchange was \$8.26 and was \$9.51 at the beginning of the year. This decrease in our stock's price, along with the dividends paid, resulted in a negative return of approximately (10.4)% for the year. Even though each year's common stock return since our initial public offering in March 1998 at \$9.00 per share has been quite varied, our common shares have provided investors with a compounded positive annual return of 9.7% per year between March 1998 and year-end 2007.

This compounded return was achieved during a period when stocks in general did not provide the types of returns which many investors had come to expect to finance their retirements and lifestyle choices. During this same period, the S&P 500 stock index has provided a compounded return of 4.8% per year.

Form 10-K

As you read the attached Annual Report on Form 10-K, which is on file with the United States Securities and Exchange Commission (or the "SEC"), you will observe that our book value per share, which includes unrealized gains and losses, as of December 31, 2007, decreased to \$6.15 per common share from \$9.74 per share on December 31, 2006.

You will also note that our portfolio consists of the following components:

Agency MBS Portfolio—\$4.7 billion of MBS issued by Fannie Mae, Freddie Mac or Ginnie Mae. This portfolio consists of 20% in adjustable-rate MBS with interest rate resets within one year; 62% in hybrid adjustable-rate MBS resetting between one and five years; and 18% in fixed-rate MBS; and

Non-Agency MBS Portfolio – \$43 million of Investment Grade MBS not issued by Fannie Mae, Freddie Mac or Ginnie Mae. This portfolio consists of floating-rate collateralized mortgage obligations, or CMOs. This portfolio is not pledged to any repurchase agreement counterparties.

Interest Rate Outlook

We think that the Federal Reserve will maintain or reduce the current 2.25% target rate for Federal Funds until it concludes that prospective homeowners believe that buying a house will be a safe investment. We do not think that this belief will occur in 2008. It is likely in 2009, but more likely in 2010 which, of course, is another election year.

Assuming that this Federal Reserve policy of providing additional liquidity to the banking system is successful, the effect of this interest rate outlook on the income generated by our company's portfolio of pass-through mortgage securities issued and guaranteed by Fannie Mae and Freddie Mac should be positive.

Other Comprehensive Income or Loss

Listed in our Consolidated Balance Sheets, which you can find on page F-3 of our Form 10-K, is an entry named "Accumulated other comprehensive income," or AOCI, which accounts for unrealized gains or losses in our portfolio. As of December 31, 2007, AOCI was a negative \$36.1 million, or \$(0.63) per outstanding share, which is the amount that the value of our MBS portfolio was less than its cost.

Common Stock

On November 29, 2007, we completed a common stock offering and issued an aggregate of 10,350,000 new shares to investors at \$6.70 per share before expenses, which added approximately \$65 million of paid-in capital to our balance sheet. In December 2007, we sold 1,115,100 shares of our common stock through our Controlled Equity Offering program with Cantor Fitzgerald & Co., which provided net proceeds to us of approximately \$9 million.

Our Series A Cumulative Preferred Stock

Our Series A 8.625% Cumulative Preferred Stock also trades on the New York Stock Exchange. The issue price was \$25.00 per share and the annual dividend rate is \$2.15625 per share. There are presently 1,875,500 Series A preferred shares outstanding. The dividend is routinely scheduled to be paid on the 15th of the first month in each calendar quarter. If you are interested in more details about our Series A Cumulative Preferred Stock, a copy of the prospectus is available on the www.sec.gov website.

When the profitability level of the company exceeds the cost of paying the dividend to our preferred stockholders, it will result in more earnings and dividends for our common stockholders. In 2007, this did not occur and the result was less earnings and dividends for our common stockholders.

We also understand that many investors seek a more predictable quarterly income from their investment portfolio and will find our preferred stock more suitable than our common stock, whose dividends have historically varied significantly.

Our Series B Cumulative Convertible Preferred Stock

In February 2007, we issued an aggregate of 1.150 million shares of Series B 6.25% Cumulative Convertible Preferred Stock which also trades on the New York Stock Exchange. The issue price was \$25.00 per share and the annual dividend rate is \$1.5625 per share. There are presently 1,206,000 Series B preferred shares outstanding. The \$25.00 par value Series B Cumulative Convertible Preferred Stock can be converted into 2.38 common shares. Also, if our common share dividend yield exceeds 6.25%, this conversion rate can increase. If you are interested in more details about our Series B Cumulative Convertible Preferred Stock, a copy of the prospectus is available on the www.sec.gov website.

Subsequent Events

On January 30, 2008, we completed a common stock offering and issued an aggregate of 16,445,000 new shares to investors at \$8.75 per share before expenses, which added approximately \$136.5 million of paid-in capital to our balance sheet.

From January 2, 2008 through March 31, 2008, we sold 2,362,000 shares of our common stock through our Controlled Equity Offering program with Cantor Fitzgerald & Co., which provided net proceeds to us of approximately \$19.869 million.

Dividend Reinvestment and Stock Purchase Plan

We believe that our Dividend Reinvestment and Stock Purchase Plan (or the "Plan") continues to provide two attractive benefits of common stock ownership. Common stockholders can, without brokerage commissions, reinvest their dividends into additional shares of Anworth common stock at a discount of 5% to the average market price. Also, the Plan offers stockholders and investors the ability to make monthly purchases of up to \$10,000 in Anworth shares at currently a 2% discount to the market price without brokerage commissions. Please call or e-mail us to receive a prospectus that describes the details of the Plan so that you can join and 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 obtain information about our corporate governance procedures, webcast presentations to investor groups and other statistical information.

Our Philosophy

We continue to believe that our company is well suited to be a long-term participant in the mortgage finance industry and to provide a valuable service to residential homeowners. Many financial institutions that originate mortgage loans no longer keep these loans in their portfolios. Therefore, these originators often promptly securitize their residential mortgage loans through Fannie Mae and Freddie Mac.

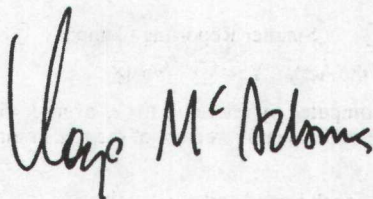
Anworth is now a significant financial intermediary mortgage organization with it being a long-term beneficial owner of approximately \$4.8 billion of residential mortgages.

Many large institutional investors tend to speculate in mortgage rates and add to mortgage rate volatility. We believe that we can improve mortgage rate stability by permanently owning residential MBS in a very capital-efficient and tax-efficient manner. We also believe that, over the long-term, Anworth stockholders and the home-owning public can benefit significantly from this trend.

Annual Meeting of Stockholders

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

As always, I thank you for your continued support.



Lloyd McAdams, CFA
Chairman and Chief Executive Officer

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

Robert C. Davis

Director

EXECUTIVE OFFICERS

Thad M. Brown

Chief Financial Officer, Secretary
and Treasurer

Heather U. Baines

Executive Vice President

Charles J. Siegel

Senior Vice President—Finance and Assistant
Secretary

Evangelos Karagiannis

Vice President

Bistra Pashamova

Vice President

EXECUTIVE OFFICES

Anworth Mortgage Asset Corporation
1299 Ocean Avenue, 2nd Floor
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 Registered Public Accounting Firm

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

Legal Counsel

Manatt, Phelps & Phillips, LLP
11355 W. Olympic Boulevard
Los Angeles, CA 90064

Investor Relations

Any stockholder 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 Listings

The Company's securities are traded on the New
York Stock Exchange as follows: Series A
Cumulative Preferred Stock (Symbol: ANHPrA);
Series B Cumulative Convertible Preferred Stock
(Symbol: ANHPrB); and Common Stock (Symbol:
ANH).

Annual Meeting of Stockholders

Our Annual Meeting of Stockholders will be held at
10:00 a.m. on Thursday, May 22, 2008 at the offices
of the Company (address above).

CEO Certification

The CEO certification for our fiscal year ended
December 31, 2006 was submitted to the New York
Stock Exchange without any qualifications.



Anworth Mortgage Asset Corporation

1299 Ocean Avenue, 2nd Floor

Santa Monica, CA 90401

phone: (310) 255-4493

fax: (310) 434-0070

www.anworth.com

Traded on the New York Stock Exchange

Series A Cumulative Preferred Stock symbol "ANHPrA"

Series B Cumulative Convertible Preferred Stock symbol "ANHPrB"

Common Stock symbol "ANH"