ANTHRACITE CAPITAL INC
Form 10-K
March 16, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark one)
|X| ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2005
OR
| | TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from: ________ to ________

Commission File No. 001-13937

ANTHRACITE CAPITAL, INC.
(Exact name of registrant as specified in its charter)

MARYLAND	13-3978906
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
40 East 52nd Street New York, New York	10022
(Address of principal executive office)	(Zip Code)

(212) 810-3333
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

(Title of each class)	(Name of each exchange on which registered)
COMMON STOCK, $0.001 PAR VALUE	NEW YORK STOCK EXCHANGE
9.375% SERIES C CUMULATIVE REDEEMABLE PREFERRED STOCK, $.001 PAR VALUE	NEW YORK STOCK EXCHANGE

Securities registered pursuant to Section 12(g) of the Act: Not Applicable

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes |_| No |X|

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes |_| No |X|

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 such

filing requirements for the past 90 days. Yes |X| No |_|

Indicate by check mark if 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 the 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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. (See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 on the Exchange Act Rule). Large accelerated filer |_| Accelerated filer |X| Non-accelerated filer |_|

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b of the Act). Yes |_| No |X|

The aggregate market value of the registrant's Common Stock, $.001 par value, held by non-affiliates of the registrant, computed by reference to the closing sale price of $11.85 as reported on the New York Stock Exchange on June 30, 2005, was $628,487,632 (for purposes of this calculation, affiliates include only directors and executive officers of the registrant).

The number of shares of the registrant's Common Stock, $.001 par value, outstanding as of March 16, 2006 was 56,928,756 shares.

Documents Incorporated by Reference: The registrant's Definitive Proxy Statement for the 2006 Annual Meeting of Stockholders is incorporated by reference into Part III.

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ANTHRACITE CAPITAL, INC. AND SUBSIDIARIES
2005 FORM 10-K ANNUAL REPORT
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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained herein constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to future financial or business performance, strategies or expectations. Forward-looking statements are typically identified by words or phrases such as "trend," "opportunity," "pipeline," "believe," "comfortable," "expect," "anticipate," "current," "intention," "estimate," "position," "assume," "potential," "outlook," "continue," "remain," "maintain," "sustain," "seek," "achieve" and similar expressions, or future or conditional verbs such as "will," "would," "should," "could," "may" or similar expressions. Anthracite Capital, Inc. (the "Company") cautions that forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time. Forward-looking statements speak only as of the date they are made, and the Company assumes no duty to and does not undertake to update forward-looking statements. Actual results could differ materially from those anticipated in forward-looking statements and future results could differ materially from historical performance.

In addition to factors previously disclosed in the Company's Securities and Exchange Commission (the "SEC") reports and those identified elsewhere in this report, the following factors, among others, could cause actual results to differ materially from forward-looking statements or historical performance:

(1) the introduction, withdrawal, success and timing of business initiatives and strategies;
(2) changes in political, economic or industry conditions, the interest rate environment or financial, capital markets and real estate markets which could result in changes in the value of the Company's assets;
(3) the relative and absolute investment performance and operations of the Company's manager, BlackRock Financial Management, Inc. (the "Manager");
(4) the impact of increased competition;

(5) the impact of capital improvement projects;

(6) the impact of future acquisitions and divestitures;

(7) the unfavorable resolution of legal proceedings;

(8) the extent and timing of any share repurchases;

(9) the impact, extent and timing of technological changes and the adequacy of intellectual property protection;
(10) the impact of legislative and regulatory actions and reforms and regulatory, supervisory or enforcement actions of government agencies relating to the Company, the Manager or The PNC Financial Services Group, Inc. ("PNC Bank");
(11) terrorist activities, which may adversely affect the general economy, real estate, financial and capital markets, specific industries, and the Company and the Manager;
(12) the ability of the Manager to attract and retain highly talented professionals;
(13) fluctuations in foreign currency exchange rates; and
(14) the impact of changes to tax legislation and, generally, the tax position of the Company.

Forward-looking statements speak only as of the date they are made. The Company does not undertake, and specifically disclaims any obligation, to publicly release the result of any revisions which may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

PART I

ITEM 1. BUSINESS

All dollar figures expressed herein are expressed in thousands, except share or per share amounts.

General

The Company, a Maryland corporation, and its subsidiaries, is a real estate finance company that generates income primarily based on the spread between the interest income on its securities investments and mortgage loans and the interest expense from borrowings to finance its investments. The Company's primary activity is investing in high yielding commercial real estate assets. The Company combines traditional real estate underwriting and capital markets expertise to exploit the opportunities arising from the continuing integration of these two disciplines. The Company primarily focuses on acquiring pools of performing loans in the form of commercial mortgage-backed securities ("CMBS"), issuing secured debt backed by CMBS and providing strategic capital for the commercial real estate industry in the form of mezzanine loan financing. The Company commenced operations on March 24, 1998.

The Company's primary investment activities are conducted in three investment sectors:
1) Commercial Real Estate Securities
2) Commercial Real Estate Loans
3) Commercial Real Estate Equity

The commercial real estate securities portfolio provides diversification and high yields that are adjusted for anticipated losses over a period of time (typically, a ten-year weighted average life) and can be financed through the

issuance of secured debt that matches the life of the investment. Commercial real estate loans and equity provide attractive risk adjusted returns over shorter periods of time through strategic investments in specific property types or regions.

The Company's common stock, par value $0.001 per share ("Common Stock"), is traded on the New York Stock Exchange under the symbol "AHR". The Company's primary long-term objective is to distribute dividends supported by earnings. The Company establishes its dividend by analyzing the long-term sustainability of earnings given existing market conditions and the current composition of its portfolio. This includes an analysis of the Company's credit loss assumptions, general level of interest rates and projected hedging costs.

The Company is managed by BlackRock Financial Management, Inc. (the "Manager"), a subsidiary of BlackRock, Inc., a publicly traded (NYSE:BLK) asset management company with over $453 billion of assets under management at December 31, 2005. The Manager provides an operating platform that incorporates significant asset origination, risk management, and operational capabilities.

Commercial Real Estate Securities

The following table indicates the amounts of each category of commercial real estate securities the Company owned at December 31, 2005. The dollar price ("Dollar Price") represents the estimated fair value or adjusted purchase price of a security, respectively, relative to its par value.

Assets	Par	Estimated Fair Value	Dollar Price	Adjusted Purchase Price*	Doll Pric
Controlling Class CMBS	$674,850	$487,109	72.18	$451,539	66
Investment Grade Commercial Real Estate Related Securities	1,052,791	1,073,146	101.93	1,058,601	100
CMBS interest only securities ("IOs")	3,505,646	103,363	2.95	103,120	2
Other Below Investment Grade CMBS	218,383	217,215	99.47	199,908	91
Collateralized debt obligation ("CDO") investments	321,585	124,550	38.73	112,577	35
Total	$5,773,255	$2,005,383	34.74	$1,925,745	33

* The adjusted purchase price represents the amortized cost of the Company's investments.

The Company's principal activity is to underwrite and acquire high yield CMBS that are rated below investment grade, most of which are held as collateral for

the Company's high yield CDOs. The Company's CMBS are securities backed by pools of loans secured by first mortgages on commercial real estate throughout the United States and Europe. The commercial real estate securing the first mortgages consist of income producing properties including office buildings, shopping centers, apartment buildings, industrial properties, healthcare properties, and hotels, among others. The terms of a typical loan include a fixed rate of interest, thirty-year amortization, some form of prepayment protection, and a large interest rate increase if not paid off at the ten-year maturity. The loans are originated by various lenders and pooled together in trusts which issue securities in the form of various classes of fixed rate debt secured by the cash flows from the underlying loans. The securities issued by the trusts are rated by one or more nationally recognized credit rating organizations and are rated AAA down to CCC. The security that is affected first by loan losses is not rated. The principal amount of the pools of loans securing the CMBS securities varies.

The Company focuses on acquiring the securities rated below investment grade (BB+ or lower). The most subordinated CMBS classes are the first to absorb realized losses in the loan pools. To the extent there are losses in excess of the most subordinated class' stated entitlement to principal and interest, then the remaining CMBS classes will bear such losses in order of their relative subordination. If a loss of face value, or par, is experienced in the underlying loans, a corresponding reduction in the par of the lowest rated security occurs, reducing the cash flow entitlement. The majority owner of the first loss position has the right to influence the workout process and therefore designate the trust's special servicer. The Company will generally seek to influence the workout process in each of its CMBS transactions by purchasing the majority of the trust's non-rated securities and sequentially rated securities as high as BB+. Typically, the par amount of all securities that are rated below investment grade represents 2.75% - 6.0% of the par of the underlying loans of newly issued CMBS transactions. This is known as the subordination level because 2.75% - 6.0% of the loan balance is subordinated to the senior, investment grade rated securities.

The Company does not typically purchase a BB- or lower rated security unless the Company is involved in

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the new issue due diligence process and has a clear pari-passu alignment of interest with the special servicer, or we can appoint the special servicer. The Company purchases BB+ and BB rated securities at their original issue or in the secondary market without necessarily having influence over the workout process. BB+ and BB rated CMBS do not absorb losses until the BB- and lower rated securities have experienced losses of their entire principal amounts. The Company believes the subordination levels of these securities provide additional credit protection and diversification with an attractive risk return profile.

Owning commercial real estate loans in these forms allows the Company to earn its loss-adjusted returns over a period of time while achieving significant diversification across geographic areas and property types.

Controlling Class CMBS

At December 31, 2005, the Company owns 22 different trusts ("Controlling Class") where the Company through its investment in subordinated CMBS of such trusts is in the first loss position. As a result of this investment position, the Company influences the workout process on $29,668,349 of underlying loans. The total par amount owned of these subordinated Controlling Class securities

is $674,850. The Company does not own the senior securities that represent the remaining par amount of the underlying mortgage loans. The special servicer on 18 of the 22 trusts is Midland Loan Services, Inc., the special servicer on two trusts is GMAC Commercial Mortgage Management, Inc., and the special servicer on the remaining two trusts is Lennar Partners, Inc. Midland Loan Services, Inc. is an affiliate of the Manager.

Each trust has a designated special servicer. Special servicers are responsible for carrying out loan loss mitigation strategies. In addition, a special servicer will advance funds to a trust to maintain principal and interest cash flows on the trust's securities provided it believes there is a significant probability of recovering those advances from the underlying borrowers. The special servicer is paid interest on advanced funds and a fee for its efforts in carrying out loss mitigation strategies.

Prior to acquiring Controlling Class securities, the Company performs a significant amount of due diligence on the underlying loans to ensure their risk profiles meet the Company's criteria. Loans that do not meet the Company's criteria are either removed from the pool or price adjustments occur. The debt service coverage and loan to value ratios are evaluated to determine if they are appropriate for each asset class.

As part of the underwriting process, the Company assumes a certain amount of loans will incur losses over time. In performing continuing credit reviews on the 22 Controlling Class trusts, the Company estimates that specific losses totaling $478,168 related to principal of the underlying loans will not be recoverable, of which $171,233 is expected to occur over the next five years. The total loss estimate of $478,168 represents 1.45% of the total underlying loan pools. Additionally, the Company assumes a constant default rate of approximately ten to forty basis points with a 35% loss severity and a one year recovery period. These loss assumptions are used to compute a loss adjusted yield, which is then used to record income on the Company's consolidated financial statements. The weighted average loss adjusted yield for all subordinated Controlling Class securities at December 31, 2005 is 9.2%. For all Controlling Class securities with a rating of BB- and below, the weighted average loss adjusted yield is 9.9% at December 31, 2005. If the loss assumptions prove to be consistent with actual loss experience, the Company will maintain that level of income for the life of the security. As actual losses differ from the original loss assumptions, yields are adjusted to reflect the updated assumptions. In addition, a write down of the adjusted purchase price or write up of loss adjusted yields of the security may be required. (See Item 7A -"Quantitative and Qualitative Disclosures About Market Risk" for more information on the sensitivity of the Company's income and adjusted purchase price to changes in credit experience.)

Once acquired, the Company uses a performance monitoring system to track the credit experience of the

mortgages in the pools securing both the Controlling Class and the other below investment grade CMBS. The Company receives remittance reports monthly from the trustees and monitors any delinquent loans or other issues that may affect the performance of the loans. The special servicer of a loan pool also assists in this process. The Company reviews its loss assumptions every quarter using updated payment and debt service coverage information on each loan in the context of economic trends on both a national and regional level.

The Company's anticipated yields on its investments are based upon a number of

assumptions that are subject to certain business and economic uncertainties and contingencies. Examples of such contingencies include, among other things, the timing and severity of expected credit losses, the rate and timing of principal payments (including prepayments, repurchases, defaults, liquidations, special servicer fees, and other related expenses), the pass-through or coupon rate, and interest rate fluctuations. Additional factors that may affect the Company's anticipated yields on its Controlling Class CMBS include interest payment shortfalls due to delinquencies on the underlying mortgage loans, the timing and magnitude of credit losses on the mortgage loans underlying the Controlling Class CMBS that are a result of the general condition of the real estate market (including competition for tenants and their related credit quality), and changes in market rental rates. As these uncertainties and contingencies are difficult to predict and are subject to future events which may alter these assumptions, no assurance can be given that the Company's anticipated yields to maturity will be maintained.

Investment Grade CMBS

The Company also purchases investment grade commercial real estate related securities in the form of CMBS and unsecured debt of commercial real estate companies. The addition of these higher rated securities is intended to add greater stability to the long-term performance of the Company's portfolio as a whole and to provide greater diversification to optimize secured financing alternatives. The Company generally seeks to assemble a portfolio of high quality issues that will maintain consistent performance over the life of the security.

CMBS IOs

The Company also acquires CMBS IOs. These securities represent a portion of the interest coupons paid by the underlying loans. The Company views this portfolio as possessing attractive relative value versus other alternatives. These securities do not have significant prepayment risk because the underlying loans generally have prepayment restrictions. Furthermore, the credit risk is also mitigated because the IO represents a portion of all underlying loans, not solely the first loss.

Commercial Real Estate Loans

The Company's loan activity is focused on providing mezzanine capital to the commercial real estate industry. The Company targets real estate operators with strong track records and compelling business plans designed to enhance the value of their real estate. These loans generally are subordinated to a senior lender or first mortgage and are priced to reflect a higher return. The Company has significant experience in closing large, complex loan transactions and believes it can deliver a timely and competitive financing package.

The types of investments in this class include subordinated participations in first mortgages, loans secured by partnership interests, preferred equity interests in real estate limited partnerships and loans secured by second mortgages. The weighted average life of these investments is generally two to three years and the investments have fixed or floating rate coupons.

The Company performs significant due diligence before making investments to evaluate risks and

opportunities in this sector. The Company generally focuses on strong sponsorship, attractive real estate fundamentals, and pricing and structural

characteristics that provide significant influence over the underlying asset.

The following table summarizes the loan investments held by the Company at December 31, 2005 and 2004.

Type of Investment	Underlying Property Type	# of Loans 2005	# of Loans 2004	Par at 2005	Par at 2004
Subordinate Mortgages	Residential/Office Hotel/Retail Communication Tower	9	8	$125,728	$87,273
Mezzanine Loans	Residential/Office Hotel/Retail/ Storage	7	9	$117,946	$164,294
Non-US Loans	Residential/Office Hotel/Retail/ Industrial/Other Mixed-Use	4	1	$129,951	$21,119
Total		20	18	$373,625	$272,686

Table continued--

Type of Investment	Book Value at 2005	Book Value at 2004	Scheduled Maturity	Interest		Yield
Subordinate Mortgages	$117,952	$77,915	2006 - 2018	6.7% - 11.0%	F	6.7% - 11.9%
				7.4% - 9.1%	L	7.4% - 9.4%
Mezzanine Loana	$117,903	$164,472	2006 - 2015	9.1% - 17.0%	F	9.1% - 17.0%
				8.9% - 13.4%	L	8.9% - 13.4%
Non-US Loans	$129,951	$21,119	2006- 2012	8.10%	F	8.10%
				6.5% - 10.6%	L	6.5% - 10.6%
Total	$365,806	$263,506				

F - Fixed Rate; L - LIBOR-based floating rate

Since 2001, the Company's activity in this sector generally has been conducted through Carbon Capital, Inc. ("Carbon I") and Carbon Capital II, Inc. ("Carbon

II", and collectively with Carbon I, the "Carbon Capital Funds"), private commercial real estate income opportunity funds. The Company believes the use of the Carbon Capital Funds allows it to invest in larger institutional quality assets with greater diversification. The Company's consolidated financial statements include its share of the net assets and income of the Carbon Capital Funds. At December 31, 2005, the Company owned approximately 20% of Carbon I as well as approximately 26% of Carbon II. The yield on the Company's investments in the Carbon Capital Funds was 22.1% for the year ended December 31, 2005. The Company's investments in the Carbon Capital Funds at December 31, 2005 were $59,646, as compared to $56,812 at December 31, 2004.

The following table summarizes the loan investments held by the Carbon Capital Funds at December 31, 2005 and 2004.

Type of Investment	Underlying Property Type	# of Loans 2005	# of Loans 2004	Par at 2005	Par at 2004
Senior Mortgages	Office	1	-	$21,183	$-
Subordinate Mortgages	Residential/ Office/Hotel/ /Retail/Land	14	16	260,936	256,686
Mezzanine Loans	Residential/ Office/Hotel/ Retail/ Storage	18	15	317,063	274,706
Total		33	31	$599,182	$531,392

[Table - continued]

Type of Investment	Book Value at 2005	Book Value at 2004	Scheduled Maturity	Interest		Yield
Senior Mortgages	$21,183	$-	2006	7.4%	L	7.4%
Subordinate Mortgages	257,668	245,154	2006 - 2012	6.7% - 18.0%	F	8.0% - 11.6%
				8.6% - 17.6%	L	7.4% - 25.9%
Mezzanine	282,227	273,754	2006 - 2012	6.4% - 22.0%	F	8.8% - 23.6%

Loans			8.9% - 18.4%	L	8.9% - 21.3%
Total	$561,078	$518,908			

F - Fixed Rate; L - LIBOR-based floating rate

Commercial Real Estate Equity

In December 2005, the Company invested an aggregate of $50,704 in the BlackRock Diamond Property Fund ("BlackRock Diamond"). BlackRock Diamond is a private real estate investment trust ("REIT") managed by BlackRock Realty Advisors, Inc., a subsidiary of the Company's Manager. BlackRock Diamond's investment objective is to seek current income and capital appreciation from a portfolio of equity real estate assets while preserving capital. The Company had a 27% ownership in BlackRock Diamond at December 31, 2005 and recorded $299 of income during the fourth quarter of 2005 with respect to this investment under the equity method. At December 31, 2005, the Company had $24,296 of remaining capital commitments to BlackRock Diamond which was called in February 2006. Additionally, during February 2006, the Company increased it capital commitments by an additional $25,000.

In March 2006, the Company purchased a multifamily property in Texas at a cost of $5,435.

Financing and Leverage

The Company has financed its assets with the net proceeds of its stock offerings, the issuance of common stock under the Company's Dividend Reinvestment and Stock Purchase Plan (the "Dividend Reinvestment Plan"), the issuance of preferred stock, long-term secured and unsecured borrowings, short-term borrowings under reverse repurchase agreements and the lines of credit discussed below. In the future, operations may be financed by offerings of equity securities, as well as unsecured and secured borrowings. The Company expects that, in general, it will employ leverage consistent with the type of assets acquired and the desired level of risk in various investment environments. The Company's governing documents do not explicitly limit the amount of leverage that the Company may employ. Instead, the Board of Directors has adopted an indebtedness policy for the Company that limits its recourse debt to equity ratio to a maximum of 3.0 to 1. The Company's recourse debt-to-equity ratio of 2.0 to 1 at December 31, 2005 was in compliance with the policy. The Company anticipates that it will maintain recourse debt-to-equity ratios between 1.0 to 1 and 3.0 to 1 in the foreseeable future, although this ratio may be higher or lower at any time. The Board of Directors may change the Company's indebtedness policy at any time.

Reverse Repurchase Agreements and Lines of Credit

The Company has entered into reverse repurchase agreements to finance its securities that are not financed under its lines of credit or CDOs. The reverse repurchase agreements collateralized by most of these securities bear interest at rates that historically have moved in close relationship to the London Interbank Offered Rate for U.S. dollar deposits ("LIBOR").

The Company has a $200,000 committed multicurrency credit facility with Deutsche Bank, AG (the "Deutsche Bank Facility"), which matures on December 20, 2007. The Deutsche Bank Facility can be used to replace existing reverse repurchase agreement borrowings and to finance the acquisition of mortgage-backed securities, loan investments, and investments in real estate joint ventures. Outstanding borrowings under the Deutsche Bank Facility bear interest at a LIBOR-based variable rate. At December 31, 2005 and 2004, the outstanding borrowings under this facility were $181,875 and $126,349, respectively. At December 31, 2005, $16,555 of the Company's $200,000 committed multicurrency credit facility with Deutsche Bank, AG was available for future borrowings.

On July 18, 2002, the Company entered into a $75,000 committed credit facility with Greenwich Capital, Inc. Outstanding borrowings under this credit facility bear interest at a LIBOR-based variable rate. At December 31, 2005 and 2004, respectively, outstanding borrowings under this facility were $75,000 and $24,527. At December 31, 2005, none of the Company's $75,000 committed credit facility with Greenwich Capital, Inc. was available.

At December 31, 2005, the Company had outstanding borrowings of $27,800 under a $28,000 committed credit facility with Morgan Stanley Mortgage Capital, Inc. The Morgan Stanley Mortgage Capital, Inc. facility matures May 11, 2006.

On February 17, 2006, the Company entered into a $200,000 committed multicurrency credit facility with Morgan Stanley Bank that matures on February 16, 2008. Extensions of credit under this facility will be secured by certain loans and securities. Outstanding borrowings under this credit facility bear interest at a LIBOR-based variable rate.

The Company is subject to various covenants in its lines of credit, including maintaining a minimum net worth measured on a book value of $305,000 in accordance with generally accepted accounting principles in the United States of America ("GAAP"), a maximum recourse debt-to-equity of 3.0 to 1, a minimum cash requirement based upon certain debt-to-equity ratios, a minimum debt service coverage ratio of 1.75 and a minimum liquidity reserve of $10,000. At December 31, 2004, the Company received authorization from its lenders to permit debt to equity and debt service coverage ratios in excess of existing covenants. At December 31, 2005 and 2004, the Company was in compliance with all other covenants.

Under the lines of credit and the reverse repurchase agreements, the respective lenders retain the right to mark the underlying collateral to estimated fair value. A reduction in the value of pledged assets could require the Company to provide additional collateral or fund cash margin calls. From time to time, the Company may be required to provide additional collateral or fund margin calls. The Company maintains adequate liquidity to meet such calls.

Long-Term Secured Borrowings

The Company finances the majority of its commercial real estate assets with match funded, secured term debt through CDO offerings. To accomplish this, the Company forms a special purpose entity ("SPE") and contributes a portfolio primarily consisting of below investment grade CMBS, investment grade CMBS, and unsecured debt of commercial real estate companies in exchange for the preferred equity interest in the SPE. With the exceptions of the Company's fourth and fifth CDOs ("CDO HY1" and "CDO HY2", respectively), these transactions are considered financings and the SPEs are fully consolidated on the Company's consolidated financial statements. The SPE then will issue fixed and floating

rate debt secured by the cash flows of the securities in its portfolio. The SPE will enter into an interest rate swap agreement to convert the floating rate debt issued to a fixed interest rate, thus matching the cash flow profile of the underlying portfolio. The structure of the CDO debt also eliminates the mark to market requirement commonly associated with of other types of financing, thus eliminating the need to provide additional collateral if the value of the underlying portfolio declines. The debt issued by the SPE generally is rated AAA down to BB. Due to its preferred equity interest, the Company continues to manage the credit risk of the underlying portfolio as it did prior to the assets being contributed to the CDO. CDO debt is the Company's preferred capital structure to maximize returns on these types of portfolios on a non-recourse basis. Other forms of financing used for these types of assets include multi-year committed financing facilities and 30-day reverse repurchase agreements.

Further information with respect to the Company's collateralized borrowings at December 31, 2005 is summarized as follows:

	Reverse Repurchase Agreements	Lines of Credit	Commercial Mortgage Loan Pools	Collateraliz Debt Obligation
Commercial Real Estate Securities				
Outstanding Borrowings	$567,519	$6,242	$-	$1,115,035
Weighted average borrowing rate	4.53%	4.28%	-	5.86
Weighted average remaining maturity	28 days	1.97 years	-	10.8 year
Estimated fair value of assets pledged	$639,116	$8,530	$-	$1,227,22
Residential Mortgage-Backed Securities				
Outstanding Borrowings	$249,122	$-	$-	$
Weighted average borrowing rate	4.34%	-	-	
Weighted average remaining maturity	24 days	-	-	
Estimated fair value of assets pledged	$258,770	$-	$-	$
Commercial Mortgage Loan Pools				
Outstanding Borrowings	$-	$722	$1,272,931	$
Weighted average borrowing rate	-	5.80%	3.97%	
Weighted average remaining maturity	-	1.53 years	6.89 years	
Estimated fair value of assets pledged	$-	$1,285	$1,292,407	$
Commercial Real Estate Loans				
Outstanding Borrowings	$-	$229,556	$-	$
Weighted average borrowing rate	-	5.29%	-	
Weighted average remaining maturity	-	1.61 years	-	
Estimated fair value of assets pledged	$-	$337,447	$-	$

*$48,105 of the Company's CDO debt is the financing of CDO bonds that the Company has chosen not to sell and financed under its lines of credit.

Certain information with respect to the Company's collateralized borrowings at December 31, 2004 is summarized as follows:

	Reverse Repurchase Agreements	Lines of Credit	Commercial Mortgage Loan Pools	Collateraliz Debt Obligation
Commercial Real Estate Securities				
Outstanding Borrowings	$284,224	$5,798	$-	$1,083,
Weighted average borrowing rate	2.62%	3.76%	-	6
Weighted average remaining maturity	30 days	192 days	-	8.06 y
Estimated fair value of assets pledged	$339,073	$9,217	$-	$1,202
Residential Mortgage-Backed Securities				
Outstanding Borrowings	$356,452	-	$-	
Weighted average borrowing rate	2.36%	-	-	
Weighted average remaining maturity	23 days	-	-	
Estimated fair value of assets pledged	$372,071	-	$-	
Commercial Mortgage Loan Pools				
Outstanding Borrowings	-	$773	$1,294,058	
Weighted average borrowing rate	-	3.61%	3.76%	
Weighted average remaining maturity	-	189 days	7.09 years	
Estimated fair value of assets pledged	-	$1,339	$1,312,045	
Commercial Real Estate Loans				
Outstanding Borrowings	-	$141,601	-	
Weighted average borrowing rate	-	3.47%	-	
Weighted average remaining maturity	-	222 days	-	
Estimated fair value of assets pledged	-	$211,566	-	

*$15,504 of the Company's CDO debt is the financing of CDO bonds that the Company has chosen not to sell and financed under its lines of credit.

Unsecured Borrowings

On September 26, 2005, the Company issued $75,000 of trust preferred securities through its wholly owned subsidiary, Anthracite Capital Trust I, a Delaware statutory trust ("Trust I"). The trust preferred securities have a thirty-year term ending October 30, 2035 with interest at a fixed rate of 7.497% for the first ten years and at a floating rate of three-month LIBOR plus 2.9% thereafter. The trust preferred securities can be redeemed at par by the Company beginning in October 2010. Trust I issued $2,380 aggregate liquidation amount of common securities, representing 100% of the voting common stock of Trust I to the Company for a purchase price of $2,380. The Company realized net proceeds from this offering of approximately $72,618.

On February 2, 2006, the Company issued $50,000 of trust preferred securities through its wholly

owned subsidiary, Anthracite Capital Trust II, a Delaware statutory trust ("Trust II"). The trust preferred securities have a thirty-year term ending April 30, 2036 with interest at a fixed rate of 7.73% for the first ten years and at a floating rate of three-month LIBOR plus 2.7% thereafter. The trust preferred securities can be redeemed at par by the Company beginning in April 2011. Trust II issued $1,550 aggregate liquidation amount of common securities, representing 100% of the voting common stock of Trust II to the Company for a purchase price of $1,550. The Company realized net proceeds from this offering of approximately $48,491.

On March 16, 2006, the Company issued $50,000 of trust preferred securities through its wholly owned subsidiary, Anthracite Capital Trust III, a Delaware statutory trust ("Trust III" and collectively with Trust I and Trust II, the "Trusts"). The trust preferred securities have a thirty-year term ending March 30, 2036 with interest at a fixed rate of 7.77% for the first ten years and at a floating rate of three-month LIBOR plus 2.7% thereafter. The trust preferred securities can be redeemed at par by the Company beginning in March 2011. Trust III issued $1,547 aggregate liquidation amount of common securities, representing 100% of the voting common stock of Trust III to the Company for a purchase price of $1,547. The Company realized net proceeds from this offering of approximately $48,435.

Equity Issuances

In 2005, the Company issued 1,725,000 shares of Common Stock in a follow-on offering at $11.59 per share. In 2004, the Company issued 2,415,000 shares of Common Stock in a follow-on offering at $11.50 per share. Additionally, for the years ended December 31, 2005 and 2004, respectively, the Company issued 1,318,568 and 1,084,619 shares of Common Stock under its Dividend Reinvestment Plan. Net proceeds under the Dividend Reinvestment Plan to the Company were approximately $14,327 and $12,691, respectively.

For the years ended December 31, 2004 and 2003, the Company issued 294,400 and 45,000 shares of Common Stock under a sale agency agreement with Brinson Patrick Securities Corporation. Net proceeds to the Company were approximately $3,210 and $497, respectively.

Hedging Activities

The Company enters into hedging transactions to protect its investment portfolio and related borrowings from interest rate fluctuations and other changes in market conditions. From time to time, the Company may modify its exposure to market interest rates by entering into various financial

instruments that adjust portfolio duration and short-term rate exposure. These financial instruments are intended to mitigate the effect of changes in interest rates on the value of the Company's assets and the cost of borrowing. These transactions may include interest rate swaps, the purchase or sale of interest rate collars, caps or floors, options, and other hedging instruments. These instruments may be used to hedge as much of the interest rate risk as the Manager determines is in the best interest of the Company's stockholders, given the cost of such hedges. The Manager may elect to have the Company bear a level of interest rate risk that could otherwise be hedged when the Manager believes, based on all relevant facts, that bearing such risk is advisable. The Manager has extensive experience in hedging mortgages, mortgage-related assets and related borrowings with these types of instruments.

Hedging instruments often are not traded on regulated exchanges, guaranteed by an exchange or its clearinghouse, or regulated by any U.S. or foreign governmental authorities. The Company will enter into these transactions only with counterparties with long-term debt rated A or better by at least one nationally recognized credit rating organization. The business failure of a counterparty with which the Company has entered into a hedging transaction most likely will result in a default, which may result in the loss of unrealized profits. Although the Company generally will seek to reserve for itself the right to terminate its

hedging positions, it may not always be possible to dispose of or close out a hedging position without the consent of the counterparty, and the Company may not be able to enter into an offsetting contract in order to cover its risk. There can be no assurance that a liquid secondary market will exist for hedging instruments purchased or sold, and the Company may be required to maintain a position until exercise or expiration, which could result in losses.

The Company's hedging activities are intended to address both income and capital preservation. Income preservation refers to maintaining a stable spread between yields from mortgage assets and the Company's borrowing costs across a reasonable range of adverse interest rate environments. Capital preservation refers to maintaining a relatively steady level in the estimated fair value of the Company's capital across a reasonable range of adverse interest rate scenarios. However, no strategy can insulate the Company completely from changes in interest rates.

Interest rate hedging instruments at December 31, 2005 and 2004 consisted of the following:

	At December 31, 2005			
	Notional Value	Estimated Fair Value	Unamortized Cost	Average R (y
Cash flow hedges	$500,350	$6,234	-	
CDO cash flow hedges	701,603	10,616	-	
Trading swaps	133,000	4,032	-	
CDO timing swaps	223,445	(37)	-	
CDO LIBOR cap	85,000	1,419	1,407	

At December 31, 2004

	Notional Value	Estimated Fair Value	Unamortized Cost	Average R (y
Cash flow hedges	$452,600	$253	-	
CDO cash flow hedges	718,120	(11,262)	-	
Trading swaps	16,000	(5)	-	
CDO timing swaps	223,445	145	-	
CDO LIBOR cap	85,000	694	1,407	

The counterparties for the Company's swaps are Deutsche Bank, AG, Merrill Lynch Capital Services, Inc., Goldman Sachs Capital Markets, L.P., Lehman Special Financing Inc., and Morgan Stanley Capital Services Capital, Inc. with ratings of AA-, A+, A+, AA-, and A+, respectively. The Company continually monitors the rating and overall credit quality of its swap counterparties.

Operating Policies

The Company has adopted compliance guidelines, including restrictions on acquiring, holding, and selling assets, to ensure that the Company meets the requirements for qualification as a REIT under the United States Internal Revenue Code of 1986, as amended (the "Code") and is excluded from regulation as an investment company under the Investment Company Act of 1940, as amended (the "Investment Company Act"). Before acquiring any asset, the Manager determines whether such asset would constitute a "Real Estate Asset" under the REIT provisions of the Code. The Company regularly monitors purchases of mortgage assets and the income generated from such assets, including income from its hedging activities, in an effort to ensure that at all times the Company's assets and income meet the requirements for qualification as a REIT and exclusion under the Investment Company Act.

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In order to maintain the Company's REIT status, the Company generally intends to distribute to its stockholders aggregate dividends equaling at least 90% of its taxable income each year. The Code permits the Company to fulfill this distribution requirement by the end of the year following the year in which the taxable income was earned.

The Company's unaffiliated directors review all transactions on a quarterly basis and ratify all transactions with the Manager and its affiliates. The unaffiliated directors rely substantially on information and analysis provided by the Manager to evaluate the Company's operating policies, compliance therewith, and other matters relating to the Company's investments.

Regulation

The Company intends to continue to conduct its business so as not to become regulated as an investment company under the Investment Company Act. Under the Investment Company Act, a non-exempt entity that is an investment company is required to register with the SEC and is subject to extensive, restrictive, and potentially adverse regulation relating to, among other things, operating methods, management, capital structure, dividends, and transactions with affiliates. The Investment Company Act exempts entities that are "primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate" ("Qualifying Interests"). Under

current interpretation by the staff of the SEC, to qualify for this exemption, the Company, among other things, must maintain at least 55% of its assets in Qualifying Interests. Substantially all of the Company's interests in residential mortgage-backed securities ("RMBS") are Qualifying Interests.

A portion of the CMBS acquired by the Company are collateralized by pools of first mortgage loans where the Company can monitor the performance of the underlying mortgage loans through loan management, servicing rights and workout/foreclosure rights with respect to the underlying mortgage loans. When such arrangements exist, the Company believes that the related Controlling Class CMBS constitute Qualifying Interests for purposes of the Investment Company Act. Therefore, the Company believes that it should not be required to register as an "investment company" under the Investment Company Act as long as it continues to invest in a sufficient amount of such Controlling Class CMBS and/or in other Qualifying Interests.

If the SEC or its staff were to take a different position with respect to whether the Company's Controlling Class CMBS constitute Qualifying Interests, the Company could be required to modify its business plan so that either (i) it would not be required to register as an investment company or (ii) it would register as an investment company under the Investment Company Act. In such event, modification of the Company's business plan so that it would not be required to register as an investment company might entail a disposition of a significant portion of the Company's Controlling Class CMBS or the acquisition of significant additional assets, such as agency pass-through and mortgage-backed securities, which are Qualifying Interests and modification of the Company's business plan to register as an investment company could result in increased operating expenses and could entail reducing the Company's indebtedness, which also could require it to sell a significant portion of its assets. No assurances can be given that any such dispositions or acquisitions of assets, or de-leveraging, could be accomplished on favorable terms. Consequently, any such modification of the Company's business plan could have a material adverse effect on the Company. Further, if it were established that the Company were operating as an unregistered investment company, there would be a risk that the Company would be subject to monetary penalties and injunctive relief in an action brought by the SEC, that the Company would be unable to enforce contracts with third parties, and that third parties could seek to obtain rescission of transactions undertaken during the period it was established that the Company was an unregistered investment company. Any such results would be likely to have a material adverse effect on the Company.

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Competition

The Company's net income depends, in large part, on the Company's ability to acquire mortgage assets at favorable spreads over the Company's borrowing costs. In acquiring mortgage assets, the Company competes with other mortgage REITs, specialty finance companies, savings and loan associations, banks, mortgage bankers, insurance companies, mutual funds, institutional investors, investment banking firms, other lenders, governmental bodies, and other entities. In addition, there are numerous mortgage REITs with asset acquisition objectives similar to the Company's, and others may be organized in the future. The effect of the existence of additional REITs may be to increase competition for the available supply of mortgage assets suitable for purchase by the Company. Some of the Company's anticipated competitors are significantly larger than the Company, have access to greater capital and other resources, and may have other advantages over the Company. In addition to existing companies, other companies may be organized for purposes similar to that of the Company, including companies organized as REITs focused on purchasing mortgage assets. A proliferation of such companies may increase the competition for equity capital

and thereby adversely affect the market price of the Company's Common Stock.

Employees

The Company does not have any employees. The Company's officers, each of whom is a full-time employee of the Manager, perform the duties required pursuant to the Management Agreement (as defined below) with the Manager and the Company's bylaws.

Management Agreement

The Company has a Management Agreement with the Manager, a majority owned indirect subsidiary of The PNC Financial Services Group, Inc. and the employer of certain directors and all of the officers of the Company, under which the Manager manages the Company's day-to-day operations, subject to the direction and oversight of the Company's Board of Directors. Pursuant to the Management Agreement, the Manager formulates investment strategies, arranges for the acquisition of assets, arranges for financing, monitors the performance of the Company's assets and provides certain other advisory and managerial services in connection with the operations of the Company. For performing these services, the Company pays the Manager a base management fee equal to 2.0% of the quarterly average total stockholders' equity for the applicable quarter.

To provide an incentive the Manager is entitled to receive an incentive fee equal to 25% of the amount by which the rolling four-quarter GAAP net income before the incentive fee exceeds the greater of 8.5% or 400 basis points over the ten-year Treasury note multiplied by the adjusted per share issue price of the common stock ($11.38 per common share at December 31, 2005).

The Company's unaffiliated directors approved an extension of the Management Agreement to March 30, 2007 at the Board's February 2006 meeting. Additionally, pursuant to a resolution of the Company's Board of Directors adopted at the February 2006 meeting, up to 30% of the incentive fees earned in 2005 or after may be paid in shares of the Company's Common Stock subject to certain provisions. The Board of Directors also authorized the Company to seek shareholders' approval of a compensatory deferred stock plan.

During the third quarter of 2003, the Manager voluntarily reduced its management fees by 20% from its calculated amount for the third and fourth quarter of 2003 and the first quarter of 2004. This revision resulted in $1,046 in savings to the Company during 2003 and $532 during 2004, respectively.

The Manager primarily engages in four activities in its capacity as Manager on behalf of the Company: (i) acquiring and originating mortgage loans and other real estate related assets; (ii) asset/liability and risk management, hedging of floating rate liabilities, and financing, management and disposition of assets,

including credit and prepayment risk management; (iii) surveillance and restructuring of real estate loans and (iv) capital management, structuring, analysis, capital raising, and investor relations activities. In conducting these activities, the Manager formulates operating strategies for the Company, arranges for the acquisition of assets by the Company, arranges for various types of financing and hedging strategies for the Company, monitors the performance of the Company's assets, and provides certain administrative and managerial services in connection with the operation of the Company. At all times, the Manager is subject to the direction and oversight of the Company's

Board of Directors.

The Company may terminate, or decline to renew the term of, the Management Agreement without cause at any time upon 60 days' written notice by a majority vote of the unaffiliated directors. Although no termination fee is payable in connection with a termination for cause, in connection with a termination without cause, the Company must pay the Manager a termination fee, which could be substantial. The amount of the termination fee will be determined by independent appraisal of the value of the Management Agreement. Such appraisal is to be conducted by a nationally-recognized appraisal firm mutually agreed upon by the Company and the Manager.

During 2000, the Company completed the acquisition of CORE Cap, Inc. The merger was a stock for stock acquisition where the Company issued 4,180,552 shares of its Common Stock and 2,261,000 shares of its Series B Preferred Stock, $0.001 par value per share ("Series B Preferred Stock"). At the time of the CORE Cap acquisition, the Manager agreed to pay GMAC (CORE Cap, Inc.'s external advisor) $12,500 over a ten-year period ("Installment Payment") to purchase the right to manage the assets under the existing management contract ("GMAC Contract"). The GMAC Contract had to be terminated in order to allow for the Company to complete the merger, as the Company's management agreement with the Manager did not provide for multiple managers. As a result, the Manager offered to buy-out the GMAC Contract as the Manager estimated it would receive incremental fees above and beyond the Installment Payment, and thus was willing to pay for, and separately negotiate, the termination of the GMAC Contract. Accordingly, the value of the Installment Payment was not considered in the Company's allocation of its purchase price to the net assets acquired in the acquisition of CORE Cap, Inc. The Company agreed that should the Management Agreement with the Manager be terminated, not renewed or not extended for any reason other than for cause, the Company would pay to the Manager an amount equal to the Installment Payment less the sum of all payments made by the Manager to GMAC. At December 31, 2005, the Installment Payment would be $5,000 payable over five years. The Company does not accrue for this contingent liability.

In addition, the Company has the right at any time during the term of the Management Agreement to terminate the Management Agreement without the payment of any termination fee upon, among other things, a material breach by the Manager of any provision contained in the Management Agreement that remains uncured at the end of the applicable cure period.

Taxation of the Company

The Company has elected to be taxed as a REIT under the Code, commencing with its taxable year ended December 31, 1998, and the Company intends to continue to operate in a manner consistent with the REIT provisions of the Code. The Company's qualification as a REIT depends on its ability to meet the various requirements imposed by the Code, through actual operating results, asset holdings, distribution levels, and diversity of stock ownership.

Provided the Company continues to qualify for taxation as a REIT, it generally will not be subject to Federal corporate income tax on its net income that is currently distributed to stockholders. This treatment substantially eliminates the "double taxation" (at the corporate and stockholder levels) that generally results from an investment in a corporation. If the Company fails to qualify as a REIT in any taxable year, its taxable income would be subject to Federal income tax at regular corporate rates (including any applicable

alternative minimum tax). Even if the Company qualifies as a REIT, it will be subject to Federal income and excise taxes on its undistributed income.

If in any taxable year the Company fails to qualify as a REIT and, as a result, incurs additional tax liability, the Company may need to borrow funds or liquidate certain investments in order to pay the applicable tax, and the Company would not be compelled to make distributions under the Code. Unless entitled to relief under certain statutory provisions, the Company would also be disqualified from treatment as a REIT for the four taxable years following the year during which qualification is lost. Although the Company currently intends to operate in a manner designed to qualify as a REIT, it is possible that future economic, market, legal, tax, or other considerations may cause the Company to fail to qualify as a REIT or may cause the Board of Directors to revoke the Company's REIT election.

The Company and its stockholders may be subject to foreign, state, and local taxation in various foreign, state, and local jurisdictions, including those in which it or they transact business or reside. The state and local tax treatment of the Company and its stockholders may not conform to the Company's Federal income tax treatment.

Website

The Company's website address is www.anthracitecapital.com. The Company makes available free of charge through its website its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC, and also makes available on its website the charters for the Audit, Nominating and Corporate Governance Committees of the Board of Directors and its Codes of Ethics, as well as its corporate governance guidelines. Copies in print of these documents are available upon request to the Secretary of the Company at the address indicated on the cover of this report. To communicate with the Board of Directors electronically, the Company has established an e-mail address, anthracitebod@blackrock.com, to which stockholders may send correspondence to the Board of Directors or any such individual directors or group or committee of directors.

In accordance with New York Stock Exchange ("NYSE") Rules, on June 23, 2005, the Company filed the annual certification by our Chief Executive Officer certifying that he was unaware of any violation by the Company of the NYSE's corporate governance listing standards at the time of the certification.

ITEM 1A. RISK FACTORS

Risks

Risk is an inherent part of investing in high yielding commercial real estate debt and equity. Risk management is considered to be of paramount importance to the Company's day-to-day operations. Consequently, the Company devotes significant resources across all its operations to the identification, measurement, monitoring, management and analysis of risk.

Risks related to the Manager

Conflicts of interest of the Manager may result in decisions that do not

fully reflect stockholders' best interests.

The Company and the Manager have common officers and directors, which may present conflicts of interest in the Company's dealings with the Manager and its affiliates, including the Company's purchase of assets originated by such affiliates. For example, the Company may purchase certain mortgage assets from PNC Bank, an affiliate of PNC Bancorp, Inc. which owned approximately 70% of the outstanding capital stock of the Manager's parent company, BlackRock, Inc. at December 31, 2005.

The Manager and its employees may engage in other business activities that could reduce the time and effort spent on the management of the Company. The Manager also provides services to REITs not affiliated with the Company. As a result, there may be a conflict of interest between the operations of the Manager and its affiliates in the acquisition and disposition of mortgage assets. In addition, the Manager and its affiliates may from time to time purchase mortgage assets for their own account and may purchase or sell assets from or to the Company. For example, BlackRock Realty Advisors, Inc., a subsidiary of the Manager, provides real estate equity and other real estate related products and services in a variety of strategies to its institutional investor client base. In doing so, it purchases real estate on behalf of its clients that may underlie the real estate loans and securities the Company acquires, and consequently depending on the factual circumstances involved, there may be conflicts between the Company and those clients. Such conflicts may result in decisions and allocations of mortgage assets by the Manager, or decisions by the Manager's affiliates, that are not in the Company's best interests.

Although the Company has adopted investment guidelines, these guidelines give the Manager significant discretion in investing. The Company's investment and operating policies and the strategies that the Manager uses to implement those policies may be changed at any time without the consent of stockholders.

The Company is dependent on the Manager, and the termination by the Company of its Management Agreement with the Manager could result in a termination fee.

The Company's success is dependent on the Manager's ability to attract and retain quality personnel. The market for portfolio managers, investment analysts, financial advisers and other professionals is extremely competitive. There can be no assurance the Manager will be successful in its efforts to recruit and retain the required personnel.

The management agreement between the Company and the Manager provides for base management fees payable to the Manager without consideration of the performance of the Company's portfolio and also provides for incentive fees based on certain performance criteria, which could result in the Manager recommending riskier or more speculative investments. Termination of the Management

Agreement between the Company and the Manager by the Company would result in the payment of a substantial termination fee, which could adversely affect the Company's financial condition. Termination of the Management Agreement by the Company could also adversely affect the Company if the

Company were unable to find a suitable replacement.

There is a limitation on the liability of the Manager.

Pursuant to the Management Agreement, the Manager will not assume any responsibility other than to render the services called for under the Management Agreement and will not be responsible for any action of the Company's Board of Directors in following or declining to follow its advice or recommendations. The Manager and its directors and officers will not be liable to the Company, any of its subsidiaries, its unaffiliated directors, its stockholders or any subsidiary's stockholders for acts performed in accordance with and pursuant to the Management Agreement, except by reason of acts constituting bad faith, willful misconduct, gross negligence or reckless disregard of their duties under the management agreement. The Company has agreed to indemnify the Manager and its directors and officers with respect to all expenses, losses, damages, liabilities, demands, charges and claims arising from acts of the Manager not constituting bad faith, willful misconduct, gross negligence or reckless disregard of duties, performed in good faith in accordance with and pursuant to the Management Agreement.

Risks related to the Company's business

Interest rate fluctuations will affect the value of the Company's mortgage assets, net income and common stock.

Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors. Interest rate fluctuations can adversely affect the income and value of the Company's common stock in many ways and present a variety of risks, including the risk of a mismatch between asset yields and borrowing rates, variances in the yield curve, changing prepayment rates and margin calls.

The Company's operating results depend in large part on differences between the income from its assets (net of credit losses) and borrowing costs. The Company funds a substantial portion of its assets with borrowings that have interest rates that reset relatively rapidly, such as monthly or quarterly. The Company anticipates that, in most cases, the income from its floating-rate assets will respond more slowly to interest rate fluctuations than the cost of borrowings, creating a potential mismatch between asset yields and borrowing rates. Consequently, changes in interest rates, particularly short-term interest rates, may significantly influence the Company's net income. Increases in these rates tend to decrease the Company's net income and estimated fair value of the Company's net assets. Interest rate fluctuations that result in the Company's interest expense exceeding interest income would result in the Company incurring operating losses.

The Company also invests in fixed-rate mortgage-backed securities. In a period of rising interest rates, the Company's interest payments could increase while the interest the Company earns on its fixed-rate mortgage-backed securities would not change. This would adversely affect the Company's profitability.

The relationship between short-term and long-term interest rates often is referred to as the "yield curve." Ordinarily, short-term interest rates are lower than long-term interest rates. If short-term interest rates rise disproportionately relative to long-term interest rates (a flattening of the yield

curve), the Company's borrowing costs may increase more rapidly than the interest income earned on the Company's assets. Because the Company's borrowings primarily will bear interest at short-term rates and the Company's assets primarily will bear interest at medium-term to long-term rates, a flattening of the yield curve tends to decrease the Company's net income and estimated fair value of the Company's net assets. Additionally, to the extent cash flows from long-term assets that return scheduled and unscheduled principal are reinvested, the spread between the yields of the new assets and available borrowing rates may decline and also may tend to decrease the net income and estimated fair value of the Company's net assets. It is also possible that short-term interest rates may adjust relative to long-term interest rates such that the level of short-term rates exceeds the level of long-term rates (a yield curve inversion). In this case, the Company's borrowing costs may exceed the Company's interest income and operating losses could be incurred.

A portion of the Company's mortgage assets are financed under 30-day repurchase agreements and committed borrowing facilities which are subject to mark-to-market risk. Such secured financing arrangements provide for an advance rate based upon a percentage of the estimated fair value of the asset being financed. Market movements that cause asset values to decline would require a margin call or a cash payment to maintain the relationship between asset value and amount borrowed.

Interest rate caps on the Company's RMBS may adversely affect the Company's profitability.

The Company's adjustable-rate RMBS typically are 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. The Company's borrowings are not subject to similar restrictions. Accordingly, in a period of rapidly increasing interest rates, the Company could experience a decrease in net income or a net loss because the interest rates on its borrowings could increase without limitation while the interest rates on its adjustable-rate mortgage-backed securities would be limited by caps.

The Company's assets include subordinated CMBS which are subordinate in right of payment to more senior securities.

The Company's assets include a significant amount of subordinated CMBS, which are the most subordinate class of securities in a structure of securities secured by a pool of loans and accordingly are the first to bear the loss upon a restructuring or liquidation of the underlying collateral and the last to receive payment of interest and principal. The Company may not recover the full amount or, in extreme cases, any of its initial investment in such subordinated interests. Additionally, estimated fair values of these subordinated interests tend to be more sensitive to changes in economic conditions than more senior interests. As a result, such subordinated interests generally are not actively traded and may not provide holders thereof with liquidity of investment.

The Company's assets include mezzanine loans which have greater risks of loss than more senior loans.

The Company's assets include a significant amount of mezzanine loans that

involve a higher degree of risk than long-term senior mortgage loans. In particular, a foreclosure by the holder of the senior loan could result in the mezzanine loan becoming unsecured. Accordingly, the Company may not recover some or all of its investment in such a mezzanine loan. Additionally, the Company may permit higher loan to value ratios on mezzanine loans than it would on conventional mortgage loans when the Company is entitled to share in the appreciation in value of the property securing the loan.

Prepayment rates can increase which would adversely affect yields on the Company's investments.

The yield on investments in mortgage loans and mortgage-backed securities and thus the value of the Company's common stock is sensitive to changes in prevailing interest rates and changes in prepayment rates, which results in a divergence between the Company's borrowing rates and asset yields, consequently reducing income derived from the Company's investments.

The Company's ownership of non-investment grade commercial mortgage assets subjects the Company to an increased risk of loss which could adversely affect yields on the Company's investments.

The Company acquires mortgage loans and non-investment grade mortgage-backed securities, which are subject to greater risk of credit loss on principal and non-payment of interest in contrast to investments in senior investment grade securities.

The Company's commercial mortgage assets are subject to certain risks.

The Company acquires, accumulates and securitizes mortgage assets as part of its investment strategy. While exposed to such mortgage assets, either as collateral for a real estate security or directly, the Company is subject to risks of borrower defaults, bankruptcies, fraud and special hazard losses that are not covered by standard hazard insurance. Insurance on owned real estate, mortgage loans and real estate securities collateral may not cover all losses.

The Company's commercial mortgage loans are subject to certain risks.

The costs of financing and hedging the mortgage loans can exceed the interest income on the mortgage loans. In the event of any default under mortgage loans held by the Company, the Company will bear the risk of loss of principal to the extent of any deficiency between the value of the mortgage collateral and the principal amount of the mortgage loan. In addition, delinquency and loss ratios on the Company's mortgage loans are affected by the performance of third-party servicers and special servicers.

The Company invests in multifamily and commercial loans which involve a greater risk of loss than single family loans.

The Company's investments include multifamily and commercial real estate loans which are considered to involve a higher degree of risk than single family residential lending because of a variety of factors, including generally larger loan balances, dependency for repayment on successful operation of the mortgaged property and tenant businesses operating

therein, and loan terms that include amortization schedules longer than the stated maturity which provide for balloon payments at stated maturity rather than periodic principal payments. In addition, the value of multifamily and commercial real estate can be affected significantly by the supply and demand in the market for that type of property.

Limited recourse loans limit the Company's recovery to the value of the mortgaged property.

A substantial portion of the mortgage loans the Company acquires may contain limitations on the mortgagee's recourse against the borrower. In other cases, the mortgagee's recourse against the borrower is limited by applicable provisions of the laws of the jurisdictions in which the mortgaged properties are located or by the mortgagee's selection of remedies and the impact of those laws on that selection. In those cases, in the event of a borrower default, recourse may be limited to only the specific mortgaged property and other assets, if any, pledged to secure the relevant mortgage loan. As to those mortgage loans that provide for recourse against the borrower and their assets generally,

such recourse may not provide a recovery in respect of a defaulted mortgage loan equal to the liquidation value of the mortgaged property securing that mortgage loan.

The volatility of certain mortgaged property values may adversely affect the Company's mortgage loans.

Commercial and multifamily property values and net operating income derived therefrom are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, national, regional and local economic conditions (which may be adversely affected by plant closings, industry slowdowns and other factors); local real estate conditions (such as an oversupply of housing, retail, industrial, office or other commercial space); changes or continued weakness in specific industry segments; perceptions by prospective tenants, retailers and shoppers of the safety, convenience, services and attractiveness of the property; the willingness and ability of the property's owner to provide capable management and adequate maintenance; construction quality, age and design; demographic factors; retroactive changes to building or similar codes; and increases in operating expenses (such as energy costs).

Leveraging the Company's investments may increase the Company's exposure to loss.

The Company leverages its investments and thereby increases the volatility of its income and net asset value that may result in operating or capital losses. If borrowing costs increase, or if the cash flow generated by the Company's assets decreases, the Company's use of leverage will increase the likelihood that the Company will experience reduced or negative cash flow and reduced liquidity.

The Company's investments may be illiquid and their value may decrease.

Many of the Company's assets are relatively illiquid. In addition, certain of the mortgage-backed securities that the Company has acquired or will acquire will include interests that have not been registered under the relevant securities laws, resulting in a prohibition against transfer,

sale, pledge or other disposition of those mortgage-backed securities except in a transaction that is exempt from the registration requirements of, or otherwise in accordance with, those laws. The Company's ability to vary its portfolio in response to changes in economic and other conditions may be relatively limited. The estimated fair value of any of the Company's assets could decrease in the future.

The Company's hedging transactions can limit the Company's gains and increase the Company's exposure to losses.

The Company uses hedging strategies that involve risk and that may not be successful in insulating the Company from exposure to changing interest and prepayment rates. A liquid secondary market may not exist for hedging instruments purchased or sold, and the Company may be required to maintain a position until exercise or expiration, which could result in losses.

The Company's non-U.S. investments are subject to currency rate exposure and the uncertainty of foreign laws and markets which could adversely affect the Company's income.

Failure to maintain REIT status would have adverse tax consequences.

To continue to qualify as a REIT, the Company must comply with requirements regarding the nature of its assets and its sources of income. If the Company is compelled to liquidate its mortgage-backed securities, the Company may be unable to comply with these requirements, ultimately jeopardizing its status as a REIT.

If in any taxable year the Company fails to qualify as a REIT:

- the Company would be subject to Federal and state income tax on its taxable income at regular corporate rates;
- the Company would not be allowed to deduct distributions to stockholders in computing its taxable income; and
- unless the Company were entitled to relief under the Code, the Company also would be disqualified from treatment as a REIT for the four taxable years following the year during which the Company lost qualification.

If the Company fails to qualify as a REIT, the Company might need to borrow funds or liquidate some investments in order to pay the additional tax liability. Accordingly, funds available for investment or distribution to the Company's stockholders would be reduced for each of the years involved.

Qualification as a REIT involves the application of highly technical and complex provisions of the Code to the Company's operations and the determination of various factual matters and circumstances not entirely within the Company's control. There are only limited judicial or administrative interpretations of these provisions. Although the Company operates in a manner consistent with the REIT qualification rules, the Company may not remain so qualified.

In addition, the rules dealing with Federal income taxation are constantly under review by persons involved in the legislative process and by the Internal Revenue Service and the United States Department of the Treasury.

Changes to the tax law could adversely affect the Company's stockholders.

Increased competition in the marketplace may adversely affect the Company's ability to acquire assets.

Because of increased competition in the marketplace, the Company may not be able to acquire mortgage-backed securities at favorable yields.

Failure to maintain an exemption from the Investment Company Act would restrict the Company's operating flexibility.

The Company conducts its business so as not to become regulated as an investment company under the Investment Company Act. Accordingly, the Company does not expect to be subject to the restrictive provisions of the Investment Company Act. Failure to maintain an exemption from the Investment Company Act would adversely affect the Company's ability to operate.

The Company may become subject to environmental liabilities.

The Company may become subject to environmental risks when it acquires interests in properties with material environmental problems. Such environmental risks include the risk that operating costs and values of these assets may be adversely affected by the obligation to pay for the cost of complying with existing environmental laws, ordinances and regulations, as well as the cost of complying with future legislation. Such laws often impose liability regardless of whether the owner or operator knows of, or was responsible for, the presence of such hazardous or toxic substances. The costs of investigation, remediation or removal of hazardous substances could exceed the value of the property. The Company's income and ability to make distributions to stockholders could be

affected adversely by the existence of an environmental liability with respect to the Company's properties.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company does not maintain an office. The Company owns a building in Texas as described in Item I Business. It does not pay rent and utilizes the offices of the Manager, located at 40 East 52nd Street, New York, New York 10022.

ITEM 3. LEGAL PROCEEDINGS

At December 31, 2005 there were no pending legal proceedings of which the Company was a defendant or of which any of its property was subject.

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

No matters were submitted to a vote of the Company's security holders during the fourth quarter of 2005 through the solicitation of proxies or

otherwise.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's Common Stock has been listed and traded on the New York Stock Exchange under the symbol "AHR" since the initial public offering in March 1998. The following table sets forth, for the periods indicated, the high, low and last sale prices in dollars on the New York Stock Exchange for the Company's Common Stock and the dividends declared by the Company with respect to the periods indicated as were traded during these respective time periods.

2004	High	Low	Last Sale	Dividends Declared
First Quarter.............	13.01	10.52	12.73	.28
Second Quarter............	13.00	10.51	11.98	.28
Third Quarter.............	12.14	10.50	11.12	.28
Fourth Quarter............	12.69	11.05	12.36	.28
2005				
First Quarter.............	12.21	10.85	11.14	.28
Second Quarter............	12.40	10.50	11.85	.28
Third Quarter.............	12.19	11.33	11.58	.28
Fourth Quarter............	11.28	10.16	10.53	.28

On March 3, 2006, the closing sale price for the Company's Common Stock, as reported on the New York Stock Exchange, was $10.72. At March 3, 2006, there were approximately 1,143 record holders of the Common Stock. This figure does not reflect beneficial ownership of shares held in nominee name.

The following table summarizes information about options outstanding under the 1998 Stock Option Plan:

	Shares	Weighted Average Exercise Price
Outstanding at January 1, 2005	1,417,851	$14.87
Granted	-	-
Exercised	-	-
Cancelled	-	-
Outstanding at December 31, 2005	1,417,851	$14.87
Options exercisable at December 31, 2005	1,417,851 *	$14.87

*1,000 options expired in February 2006.

Shares of Common Stock available for future grant under the 1998 Stock Option Plan at December 31, 2005 were 774,502.

The Company made no purchases of equity securities in 2005.

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ITEM 6. SELECTED FINANCIAL DATA

The selected financial data set forth below at and for the years ended December 31, 2005, 2004, 2003, 2002 and 2001 has been derived from the Company's audited financial statements. This information should be read in conjunction with "Item 1. Business" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations", as well as the audited financial statements and notes thereto included in "Item 8. Financial Statements and Supplementary Data".

	For the Year ended December 31,			
	2005	2004	2003	
	(In thousands, except per share da			
Operating Data:				
Total income	$243,914	$203,866	$163,778	$
Interest expense	163,458	128,166	83,249	
Other operating expenses	19,181	12,383	11,707	
Other gains (losses) (1)	9,322	(20,125)	(77,464)	
Cumulative transition adjustment (2)	-	-	-	
Net income (loss)	70,597	43,192	(8,642)	
Net income (loss) available to common stockholders	65,205	25,768	(16,386)	
Per Share Data:				
Net income (loss):				
Basic	1.20	0.50	(0.34)	
Diluted	1.20	0.50	(0.34)	
Dividends declared per common share	1.12	1.12	1.26	
Balance Sheet Data:				
Total assets	4,164,259	3,729,134	2,398,846	2,
Total liabilities	3,566,241	3,215,396	1,981,416	2,
Total stockholders' equity	598,018	513,738	417,430	

(1) Other gains (losses) for the year ended December 31, 2005 of $9,322 consist primarily of a loss of $(5,088) related to impairments on assets and a gain of $16,543 related to securities available-for-sale. Other gains (losses) for the year ended December 31, 2004 of $(20,125) consist primarily of a gain of $17,544 related to securities available-for-sale, a loss of $(26,018) related to impairments on assets and a loss of $(11,464) related to securities held-for-trading. Other gains (losses) for the year ended December 31, 2003 of $(77,464) consist primarily of a loss of $(32,426) related to impairments on assets and a loss of $(38,206) related to securities held-for-trading.

Other gains (losses) for the year ended December 31, 2002 of $(28,949) consist primarily of a loss of $(10,273) related to impairments on assets, a loss of $(29,255) related to securities held-for-trading, and a gain of $11,391 related to the sale of securities available-for-sale. Other gains (losses) for the year ended December 31, 2001 of $(910) consist primarily of a loss of $(5,702) related to impairments on assets, a loss of $(2,604) related to securities held-for-trading, and a gain of $7,401 related to the sale of securities available-for-sale.

(2) The cumulative transition adjustment represents the Company's adoption of SFAS No. 142 and SFAS No. 133 for the years ended December 31, 2002 and 2001, respectively.

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

All dollar figures expressed herein are expressed in thousands, except share and per share amounts.

General

Anthracite Capital, Inc. (the "Company"), a Maryland corporation, is a real estate finance company that invests in high yielding commercial real estate debt. The Company commenced operations on March 24, 1998.

The Company's common stock is traded on the New York Stock Exchange under the symbol "AHR". The Company's primary long-term objective is to distribute dividends supported by earnings. The Company establishes its dividend by analyzing the long-term sustainability of earnings given existing market conditions and the current composition of its portfolio. This includes an analysis of the Company's credit loss assumptions, general level of interest rates and projected hedging costs.

The Company's principal focus is to invest in a diverse portfolio of primarily high yield commercial real estate loans and commercial mortgage-backed securities ("CMBS"). The CMBS that the Company purchases are fixed income instruments similar to bonds that carry an interest coupon and stated principal. The cash flow used to pay the interest and principal on the CMBS comes from a designated pool of first mortgage loans on commercial real estate (the "Underlying Loans"). Underlying Loans usually are originated by commercial banks or investment banks and are secured by a first mortgage on office buildings, retail centers, apartment buildings, hotels and other types of commercial real estate. A typical loan pool may contain several hundred loans with principal amounts of as little as $1,000 to over $100,000. The pooling concept permits significant geographic diversification. Converting loans into CMBS in this fashion allows investors to purchase these securities in global capital markets and to participate in the commercial real estate sector with significant diversification among property types, sizes and locations in one fixed income investment.

The type of CMBS issued from a typical loan pool is generally broken down by credit rating. The highest rated CMBS will receive payments of principal first and is therefore least exposed to the credit performance of the Underlying Loan. These securities will carry a credit rating of AAA and will be issued with a principal amount that represents some portion of the total principal amount of the Underlying Loan pool.

The CMBS that receive principal payments last are generally rated below investment grade (BB+ or lower.) As the last to receive principal these CMBS are also the first to absorb any credit losses incurred in the Underlying Loan pool. The principal amount of these below investment grade classes generally represents 3.0-5.0% of the principal of the Underlying Loan pools. The investor that owns the lowest rated, or non-rated, CMBS class is designated as the controlling class representative for the underlying loan pool. This designation allows the holder to assert a significant degree of influence over any workouts or foreclosures of defaulted Underlying Loans. These securities are generally issued with a high yield to compensate for the credit risk inherent in owning the CMBS class which is the first to absorb losses.

The Company's high yield commercial real estate loan strategy encompasses B notes (defined below) and mezzanine loans. B notes and mezzanine loans are based on a similar concept of investing in a portion of the principal and interest of a specific loan instead of a pool of loans as in CMBS. In the case of B notes the principal amount of a single loan is separated into a senior interest ("A note") and a junior interest ("B note"). Prior to a borrower default, the A note and the B note receive principal and interest pari passu; however after a borrower default, the A note would receive its principal and interest first and the B note would absorb the credit losses that occur, if any, up to the full amount of its principal. The B note holder

generally has certain rights to influence workouts or foreclosures. The Company invests in B notes as they provide relatively high yields with a degree of influence over dispositions. Mezzanine loans are secured by ownership interests in an entity that owns real estate. These loans are generally subordinated to a first mortgage and would absorb a credit loss prior to the senior mortgage holder.

The Company is managed by BlackRock Financial Management, Inc. (the "Manager"), a subsidiary of BlackRock, Inc., a publicly traded (NYSE:BLK) asset management company with approximately $453 billion of assets under management at December 31, 2005. The Company believes that the trend toward highly structured investment products requires significant expertise in traditional real estate underwriting as well as in the capital markets. Through its external management contract with the Manager, the Company can source and manage more opportunities by taking advantage of a unique platform that combines these two disciplines.

The table below is a summary of the Company's investments by asset class for the last five years:

	Carrying Value at December 31,						
	2005		2004		2003		2
	Amount	%	Amount	%	Amount	%	Amount
Commercial real estate securities	$2,005,383	49.7%	$1,623,939	44.6%	$1,393,010	62.8%	$ 894,
Commercial mortgage loan pools(1)	1,292,407	32.0	1,312,045	36.1	-	-	
Commercial real estate loans((2))	425,453	10.6	329,930	9.1	97,984	4.4	88,

Commercial real estate equity	51,003	1.3	-	-	-	-	
Residential mortage-backed securities ("RMBS")	259,026	6.4	372,071	10.2	726,717	32.8	1,506,
Total	$4,033,272	100.0%	$ 3,637,985	100.0%	$2,217,711	100.0%	$2,489,

(1) Represents a Controlling Class CMBS that is consolidated for accounting purposes. See financial statements.

(2) Includes equity investments and real estate joint ventures.

Commercial Real Estate Securities Portfolio Activity

The following table details the par, estimated fair value, adjusted purchase price, and loss adjusted yield of the Company's commercial real estate securities included in as well as outside of the Company's collateralized debt obligations ("CDOs") at December 31, 2005. The dollar price ("Dollar Price") represents the estimated fair value or adjusted purchase price of a security, respectively, relative to its par value.

	Par	Estimated Fair Value	Dollar Price	Adjusted Purchase Price	Dol Pri
Investment grade CMBS	$150,128	$151,889	101.17	$161,314	107
Investment grade real estate investment trust ("REIT") debt	23,000	21,828	94.90	22,828	99
CMBS rated BB+ to B	104,784	90,289	86.17	92,931	88
CMBS rated B- or lower	132,242	47,854	36.19	45,070	34
CDO Investments	321,585	124,549	38.73	112,577	35
CMBS Interest Only securities ("IOs")	3,505,646	103,363	2.95	103,120	2
Multifamily agency securities	256,398	263,362	102.72	268,319	104
Total commercial real estate securities outside CDOs	4,493,783	803,134	17.87	806,159	17
Investment grade CMBS	375,502	377,291	100.48	354,561	94
Investment grade REIT debt	223,445	233,939	104.70	226,583	101
CMBS rated BB+ to B	656,207	566,181	86.28	513,446	78
Credit tenant lease	24,317	24,837	102.14	24,995	102
Total commercial real estate securities included in CDOs	1,279,472	1,202,248	93.96	1,119,585	87

Total commercial real estate securities	$5,773,255	$2,005,383	34.74	$1,925,744	33

During the year ended December 31, 2005, the Company increased its commercial real estate securities portfolio by 23% from $1,628,519 to $2,005,383. This increase was primarily attributable to the purchase of multifamily agency securities, subordinated CMBS and investment grade CMBS that have an estimated fair value at December 31, 2005 of $247,820, $265,387 and $82,687, respectively. The purchase of the aforementioned securities was offset by the sale of assets with an estimated fair value of $323,103 in CDO HY2. (See "Securitizations" below.)

The Company's CDO offerings allow the Company to match fund its commercial real estate portfolio by issuing long-term debt to finance long-term assets. The CDO debt is non-recourse to the Company; therefore, the Company's losses are limited to its equity investment in the CDO. The CDO debt is also hedged to protect the Company from an increase in short-term interest rates. At December 31, 2004, over 86% of the estimated fair value of the Company's subordinated CMBS is match funded in the Company's CDOs in this manner. The Company retained 100% of the equity of CDOs I, II and III (as

defined below) and recorded the transactions on its consolidated financial statements as secured financing.

The table below summarizes the Company's CDO debt and collateral at December 31, 2005.

	Collateral at December 31, 2005		Debt at December 31, 2005	
	Adjusted Purchase Price	Loss Adjusted Yield	Adjusted Issue Price	Weighted Average Cost of Funds *
CDO I	$440,481	8.67%	$406,208	7.21%
CDO II	326,757	7.67%	292,807**	5.79%
CDO III	377,812	7.21%	369,915**	5.03%
Total **	$1,145,050	7.91%	$1,066,930	6.07%

* Weighted Average Cost of Funds is the current cost of funds plus hedging expenses.
** The Company chose not to sell $10,000 of par of CDO II debt rated BB and $13,069 of par of CDO III debt rated BB.

The Company's first CDO transaction ("CDO I") was issued as Anthracite CDO 2002 CIBC-1 and closed on May 15, 2002. The Company issued $403,633 of debt secured by a portfolio of commercial real estate securities with a total par of

$515,880 and an adjusted purchase price of $431,995.

On December 10, 2002, the Company issued another $280,607 of debt through Anthracite CDO 2002-2 secured by a separate portfolio of commercial real estate securities with a par of $313,444 and an average adjusted purchase price of $289,197. Included in the Company's second collateralized debt obligation ("CDO II") was a ramp facility that was utilized to fund the purchase of an additional $50,000 of par of below investment grade CMBS. The Company utilized the ramp in February 2003 and July 2003, to contribute $30,000 of par of CSFB 03-CPN1 and $20,000 of par of GECMC 03-C2, respectively. In July 2004, the Company issued a bond with a par of $12,850 from CDO II. Before issuing this security, the Company amended the indenture to reduce the coupon from 9.0% to 7.6%.

On March 30, 2004 the Company issued its third collateralized debt obligation ("CDO III") through Anthracite CDO 2004-1. The total par value of bonds sold was $372,456. The total cost of funds on a fully hedged basis was 5.0%. Included in CDO III was a $50,000 ramp facility that was fully utilized at December 31, 2004.

Securitizations

On July 26, 2005, the Company closed its fifth CDO ("CDO HY2") and issued non-recourse liabilities with a face amount of $365,010. Senior investment grade notes with a face amount of $240,134 were issued and sold in a private placement. The Company retained the floating rate BBB- note, the below investment grade notes and the preferred shares. The Company recorded CDO HY2 as a secured financing for accounting purposes and consolidated the assets, liabilities, income and expenses of CDO HY2 until the sale of the floating rate BBB- note in December 2005, at which point CDO HY2 qualified as a sale under SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities ("SFAS 140").

The Company received cash proceeds of $244,212 as well as all of the retained interests that had an estimated fair value of $105,025 at December 31, 2005. The transaction raised investable proceeds of $56,226. The following table summarizes the impact of this transaction on 2005 results:

Net realized gain related to sale of CDO HY2	$16,523
Increase in accumulated other comprehensive income	9,611
Total stockholders' equity impact	$26,134

On November 9, 2004, the Company closed its fourth collateralized debt obligation ("CDO HY1") secured by a portfolio of below investment grade CMBS with an average rating of CCC. The CMBS portfolio was carried at its estimated fair value of $109,933 on the Company's consolidated statement of financial condition based on price quotes received from third parties. The transaction was accounted for as a sale under SFAS No. 140. The Company received cash proceeds of $140,425 as well as all of the CDO HY1 preferred shares that had an estimated fair value of $15,885 at December 31, 2004. The transaction raised investable proceeds of $95,799. The following table summarizes the impact of this transaction on 2004 results:

Realized gain at closing of CDO HY1	$14,769
Realized gain from subsequent sale of A- tranche	1,825

Increase in accumulated other comprehensive income	29,782
Total stockholders' equity impact	$46,376

Real Estate Credit Profile of Below Investment Grade CMBS

The Company divides its below investment grade CMBS investment activity into two portfolios; Controlling Class CMBS and other below investment grade CMBS. The Company considers the CMBS securities where it maintains the right to influence the foreclosure/workout process on the underlying loans its controlling class CMBS ("Controlling Class"). The distinction between the two is in the rights the Company obtains with its investment in Controlling Class CMBS. Controlling Class rights allow the Company to influence the workout and/or disposition of defaults that occur in the underlying loans. These securities absorb the first losses realized in the underlying loan pools. The coupon payment on the non-rated security also can be reduced for special servicer fees charged to the trust. The next highest rated security in the structure then generally will be downgraded to non-rated and become the first to absorb losses and expenses from that point on. At December 31, 2005, the Company owns 22 different trusts where it is in the first loss position and is designated as the controlling class representative by owning the lowest rated or non-rated CMBS class. The total par of the loans underlying these securities was $29,668,349. At December 31, 2005, subordinated Controlling Class CMBS with a par of $674,850 were included on the Company's consolidated statement of financial condition and subordinated Controlling Class CMBS with a par of $713,442 were held as collateral for CDOs HY1 and HY2.

The Company's other below investment grade CMBS have more limited rights associated with its ownership to influence the workout and/or disposition of underlying loan defaults. The total par of the Company's other below investment grade CMBS at December 31, 2005 was $218,383; the average credit protection, or subordination level, of this portfolio is 4.76%.

The Company's investment in its subordinated Controlling Class CMBS securities by credit rating category at December 31, 2005 is as follows:

	Par	Estimated Fair Value	Dollar Price	Adjusted Purchase Price	Dollar Price	Weighted Average Subordination Level
BB+	$139,541	$131,676	94.36	$120,541	86.38	5.64%
BB	92,583	81,469	88.00	76,527	82.66	4.43%
BB-	110,514	92,116	83.35	85,829	77.66	4.15%
B+	79,564	56,651	71.20	52,828	66.40	2.60%
B	132,247	84,201	63.37	77,784	58.82	2.81%
B-	23,775	13,216	55.59	12,303	51.75	1.24%
NR	96,626	27,777	28.75	25,727	26.63	n/a
Total	$674,850	$487,106	72.18	$451,539	66.91	

The Company's investment in its subordinated Controlling Class CMBS securities by credit rating category at December 31, 2004 is as follows:

	Par	Estimated Fair Value	Dollar Price	Adjusted Purchase Price	Dollar Price	Weighted Average Subordination Level
BB+	$129,493	$122,294	94.44	$112,754	87.07	6.50%
BB	76,575	65,610	85.68	61,602	80.45	4.73%
BB-	118,144	91,919	77.80	90,307	76.44	4.16%
B+	61,604	40,409	65.59	40,951	66.48	2.88%
B	171,093	106,455	62.22	102,893	60.14	2.64%
B-	7,809	4,478	57.35	4,552	58.29	1.41%
CCC	19,326	4,360	22.56	6,573	34.01	1.38%
NR	47,605	5,984	12.57	4,996	10.49	n/a
Total	$631,649	$441,509	69.90	$424,628	67.23	

During 2005, the par amount of the Company's Controlling Class CMBS was reduced by $15,600; of this amount, $8,529 of the par reductions were related to Controlling Class CMBS held in CDO HY1 and CDO HY2. Further delinquencies and losses may cause the par reductions to continue and cause the Company to conclude that a change in loss adjusted yield is required along with a write down of the adjusted purchase price through the income statement according to Emerging Issue Task Force ("EITF") 99-20. Also during 2005, the loan pools were paid down by $734,330. Pay down proceeds are distributed to the highest rated CMBS class first and reduce the percent of total underlying collateral represented by each rating category.

For all of the Company's Controlling Class securities, the Company follows a policy of assigning estimated losses to specific loans as well as adding a general loss assumption that is not loan specific. Overall the Company assumes that a total of 1.45% of the original loan balance will not be recoverable on specific loans. The general loss assumption varies by transactions but is in a range of ten to forty basis points per year of defaults with a 35% loss severity which takes one year to recover. These estimates were developed based on an analysis of individual loan characteristics and prevailing market conditions at the time of origination. All estimated workout expenses including special servicer fees are included in these assumptions. Actual results could differ materially from these estimated results. See Item 7A -"Quantitative and Qualitative Disclosures About Market Risk" for a discussion of how differences between estimated and actual losses could affect Company earnings.

The Company considers delinquency information from the Lehman Brothers Conduit Guide to be the most relevant benchmark to measure credit performance and market conditions applicable to its Controlling Class CMBS holdings. The year of issuance, or vintage year, is important, as older loan pools will tend to have more delinquencies than newly underwritten loans. The Company owns Controlling Class CMBS issued in 1998, 1999, 2001, 2002, 2003, 2004, and 2005.

Comparable delinquency statistics referenced by vintage year as a percentage of par outstanding at December 31, 2005 are shown in the table below:

Vintage Year	Underlying Collateral	Delinquencies Outstanding	Lehman Brothers Conduit Guide
1998	$6,012,402	1.61%	1.56%
1999	644,329	0.42%	1.89%
2001	878,566	3.54%	1.58%
2002	1,148,668	0.69%	0.88%
2003	2,121,179	0.50%	0.52%
2004	6,683,358	0.63%	0.24%
2005	12,179,847	0.00%	0.07%
Total	$29,668,349	0.64%*	0.56%*

* Weighted average based on current principal balance.

Delinquencies on the Company's CMBS collateral as a percent of principal are in line with expectations and are consistent with comparable data provided in the Lehman Brothers Conduit Guide. Morgan Stanley also tracks CMBS loan delinquencies for the specific CMBS transactions with more than $200,000 of collateral and that have been seasoned for at least one year. These seasoning criteria generally will adjust for the lower delinquencies that occur in newly originated collateral. At December 31, 2004, the Morgan Stanley index indicated that delinquencies on 286 securitizations were 1.74%, and at December 31, 2005, this same index indicated that delinquencies on 338 securitizations were 1.21%. See Item 7A - "Quantitative and Qualitative Disclosures About Market Risks" for a detailed discussion of how delinquencies and loan losses affect the Company.

The following table sets forth certain information relating to the aggregate principal balance and payment status of delinquent mortgage loans underlying the Controlling Class CMBS held by the Company at December 31, 2005 and 2004:

	2005			200	
	Principal	Number of Loans	% of Collateral	Principal	Numb Lo
Past due 30 days to 60 days	$50,751	7	0.17%	$20,288	
Past due 60 days to 90 days	37,155	5	0.13	67,902	
Past due 90 days or more	79,758	20	0.27	93,453	
Real Estate owned	19,666	4	0.07	5,310	
Foreclosure	3,625	1	0.01	-	
Total Delinquent	$190,954	37	0.64%	$186,953	
Total Collateral Balance	$29,668,349	3,596		$18,580,729	2,

Of the 37 delinquent loans at December 31, 2005, four loans were real estate owned and being marketed for sale, one loan was in foreclosure and the remaining 32 loans were in some form of workout negotiations. The Controlling Class CMBS owned by the Company have a delinquency rate of 0.64%, which is

consistent with industry averages. During 2005, the underlying collateral experienced early payoffs of $734,330 representing 2.48% of the year-end pool balance. These loans were paid off at par with no loss. Aggregate losses related to the underlying collateral of $15,194 were realized during year ended December 31, 2005. This brings cumulative realized losses to $90,170, which is 18.9% of total estimated losses. These losses include special servicer and other workout expenses. This experience to date is in line with the Company's loss expectations. Realized losses and special servicer expenses are expected to increase on the underlying loans as the portfolio matures. Special servicer expenses are also expected to increase as portfolios mature.

To the extent that realized losses differ from the Company's original loss estimates, it may be necessary to reduce or increase the projected yield on the applicable CMBS investment to better reflect such investment's expected earnings net of expected losses, from the date of purchase. While realized losses on individual assets may be higher or lower than original estimates, the Company currently believes its aggregate loss estimates and yields remain appropriate.

The Company manages its credit risk through disciplined underwriting, diversification, active monitoring of loan performance and exercise of its right to influence the workout process for delinquent loans as early as possible. The Company maintains diversification of credit exposures through its underwriting process and can shift its focus in future investments by adjusting the mix of loans in subsequent acquisitions. The comparative profiles of the loans underlying the Company's CMBS by property type at December 31, 2005 and for the two prior years are as follows:

	12/31/05 Exposure		12/31/04 Exposure		12/31/03 Exposure	
Property Type	Loan Balance	% of Total	Loan Balance	% of Total	Loan Balance	T
Multifamily	$6,874,450	23.2%	$5,305,129	28.6%	$3,770,944	
Retail	9,195,747	31.0	6,026,472	32.4	3,446,371	
Office	9,406,148	31.7	4,617,616	24.9	2,266,160	
Lodging	1,670,436	5.6	915,369	4.9	786,920	
Industrial	2,060,953	7.0	1,272,583	6.8	713,942	
Healthcare	299,692	1.0	327,832	1.8	337,333	
Other	160,923	0.5	115,728	0.6	25,611	
Total	$29,668,349	100%	$18,580,729	100%	$11,347,281	

At December 31, 2005 and 2004, the mortgage loans underlying the Controlling Class CMBS held by the Company were secured by properties at the locations identified below:

	Percentage (1)	
Geographic Location	2005	2004
California	16.7%	13.7%
Texas	8.7	10.1
New York	14.5	11.7
Florida	8.1	8.4
Other (2)	52.0	56.1

Total	100.0%	100.0%

(1) Based on a percentage of the total unpaid principal balance of the underlying loans.
(2) No other individual category comprises more than 5% of the total.

At December 31, 2005, the estimated fair value of the Company's holdings of Controlling Class CMBS is $43,541 higher than the adjusted cost for these securities which consists of gross unrealized gains of $49,853 and gross unrealized losses of $6,312. The adjusted purchase price of the Company's Controlling Class CMBS portfolio at December 31, 2005 represents approximately 69% of its par amount. The estimated fair value of the Company's Controlling Class CMBS portfolio at December 31, 2005 represents approximately 75% of its par amount. As the portfolio matures, the Company expects to recoup the $6,312 of unrealized loss, provided that the credit losses experienced are not greater than the credit losses assumed in the projected cash flow analysis. At December 31, 2005, the Company believes there has been no material deterioration in the credit quality of its portfolio below current expectations.

As the portfolio matures and expected losses occur, subordination levels of the lower rated classes of a CMBS investment will be reduced. This may cause the lower rated classes to be downgraded, which would negatively affect their estimated fair value and therefore the Company's net asset value. Reduced estimated fair value will negatively affect the Company's ability to finance any such securities that are not financed through a CDO or similar matched funding vehicle. In some cases, securities held by the Company may be upgraded to reflect seasoning of the underlying collateral and thus would increase the estimated fair value of the securities. During 2005 the Company experienced ten rating upgrades on four of the Company's Controlling Class CMBS and no downgrades. Additionally, the Company experienced 35 upgrades and four downgrades related to non-Controlling Class commercial real estate securities during 2005.

The Company's income calculated in accordance with generally accepted accounting principles in the United States of America ("GAAP") for its CMBS securities is computed based upon a yield, which assumes credit losses would occur. The yield to compute the Company's taxable income does not assume there would be credit losses, as a loss can only be deducted for tax purposes when it has occurred. As a result, for the years 1998 through December 31, 2005, the Company's GAAP income accrued on its CMBS assets was approximately $28,120 lower than the taxable income accrued on the CMBS assets.

Affect of Hurricanes on Below Investment Grade CMBS

During the third quarter of 2005, four properties which are security for mortgages in four separate Controlling Class CMBS transactions were severely damaged by Hurricane Katrina. The outstanding loan balances on these four properties is $21,995. Based on the Company's on-site review of the damage incurred and information available to date, the Company believes that three properties have adequate insurance coverage and the cash flows related to those Controlling Class CMBS transactions should not be adversely affected. As a result, the Company has not adjusted the carrying value or the loss adjusted yields for the Controlling Class CMBS transactions that include those three properties. The fourth property suffered significant damage, and the anticipated loss for this property has been adjusted. As more information about

reconstruction costs is received, losses may be adjusted further.

In addition, the Company has concluded that no properties in its Controlling Class CMBS transactions were substantially affected by Hurricane Wilma.

Commercial Real Estate Loan Activity

The Company's commercial real estate loan portfolio generally emphasizes larger transactions located in metropolitan markets, as compared to the typical loan in the CMBS portfolio.

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The following table summarizes the Company's commercial real estate loan portfolio by property type at December 31, 2005, 2004, and 2003:

	Loan Outstanding					
	December 31, 2005		December 31, 2004		December 31, 2003	
Property Type	Amount	%	Amount	%	Amount	%
Office	$94,432	25.8%	$88,311	33.5%	$50,410	81.7
Residential	57,466	15.7	13,480	5.1	52	.1
Retail	76,502	20.9	59,070	22.4	-	-
Hotel	79,840	21.8	102,645	39.0	11,206	18.2
Storage	32,913	9.0	-	-	-	-
Communication Tower	20,000	5.5	-	-	-	-
Industrial	2,423	0.7	-	-	-	-
Other Mixed Use	2,230	0.6	-	-	-	-
Total	$365,806	100.0%	$263,506	100.0%	$61,668	100.0

For the year ended December 31, 2005, the Company purchased $243,557 of commercial real estate loans. These acquisitions include commercial real estate loans denominated in British pounds of (pound)22,375 ($39,535) and loans denominated in Euros of (euro)70,124 ($83,586). The Company finances these loans by borrowing in the applicable currency and hedging the portion which is not financed. For the year ended December 31, 2005, the Company experienced repayments of $112,830 related to its commercial real estate loan portfolio.

Critical Accounting Estimates

Management's discussion and analysis of financial condition and results of operations are based on the amounts reported in the Company's consolidated financial statements. These financial statements are prepared in accordance with GAAP. In preparing the financial statements, management is required to make various judgments, estimates and assumptions that affect the reported amounts. Changes in these estimates and assumptions could have a material

effect on the Company's consolidated financial statements. The following is a summary of the Company's accounting policies that are the most affected by management judgments, estimates and assumptions:

Securities Available-for-sale

The Company has designated certain investments in mortgage-backed securities, mortgage-related securities and certain other securities as available-for-sale. Securities available-for-sale are carried at estimated fair value with the net unrealized gains or losses reported as a component of accumulated other comprehensive income (loss) in stockholders' equity. Many of these investments are relatively illiquid, and management must estimate their values. In making these estimates, management generally utilizes market prices provided by dealers who make markets in these securities, but may, under certain circumstances, adjust these valuations based on management's judgment. Changes in the valuations do not affect the Company's reported net income or cash flows, but impact stockholders' equity and, accordingly, book value per share.

Management must also assess whether unrealized losses on securities reflect a decline in value that is other than temporary, and, accordingly, write the impaired security down to its fair value, through earnings. Significant judgment by management is required in this analysis, which includes, but is not limited to, making assumptions regarding the collectability of the principal and interest, net of related expenses, on the underlying loans.

Income on these securities is recognized based upon a number of assumptions that are subject to uncertainties and contingencies. Examples include, among other things, the rate and timing of principal payments (including prepayments, repurchases, defaults and liquidations), the pass-through or coupon rate and interest rate fluctuations. Additional factors that may affect the Company's reported interest income on its mortgage securities include interest payment shortfalls due to delinquencies on the underlying mortgage loans, the timing and magnitude of credit losses on the mortgage loans underlying the securities that are a result of the general condition of the real estate market (including competition for tenants and their related credit quality) and changes in market rental rates. These uncertainties and contingencies are difficult to predict and are subject to future events that may alter the assumptions.

The Company recognizes interest income from its purchased beneficial interests in securitized financial interests ("beneficial interests") (other than beneficial interests of high credit quality, sufficiently collateralized to ensure that the possibility of credit loss is remote, or that cannot contractually be prepaid or otherwise settled in such a way that the Company would not recover substantially all of its recorded investment) in accordance with Emerging Issues Task Force ("EITF") Issue 99-20, Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets ("EITF 99-20"). Accordingly, on a quarterly basis, when changes in estimated cash flows from the cash flows previously estimated occur due to actual prepayment and credit loss experience, the Company calculates a revised yield based on the current amortized cost of the investment (including any other-than-temporary impairments recognized to date) and the revised cash flows. The revised yield is then applied prospectively to recognize interest income.

For other mortgage-backed and related mortgage securities, the Company accounts for interest income under SFAS No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases ("SFAS No. 91"), using the effective yield method which includes the

amortization of discount or premium arising at the time of purchase and the stated or coupon interest payments.

Impairment - Securities

In accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities ("SFAS No. 115"), when the estimated fair value of the security classified as available-for-sale has been below amortized cost for a significant period of time and the Company concludes that it no longer has the ability or intent to hold the security for the period of time over which the Company expects the values to recover to amortized cost, the investment is written down to its fair value. The resulting charge is included in income, and a new cost basis is established. Additionally, under EITF 99-20, when changes in estimated cash flows from the cash flows previously estimated occur due to actual prepayment and credit loss experience, and the present value of the revised cash flows using the current expected yield is less than the present value of the previously estimated remaining cash flows (adjusted for cash receipts during the intervening period), an other-than-temporary impairment is deemed to have occurred. Accordingly, the security is written down to fair value with the resulting change being included in income, and a new cost basis established. In both instances, the original discount or premium is written off when the new cost basis is established.

After taking into account the effect of an impairment charge, income is recognized under EITF 99-20 or SFAS No. 91, as applicable, using the market yield for the security used in establishing the write-down.

Variable interest entities

The consolidated financial statements include the financial statements of the Company and its subsidiaries, which are wholly owned or controlled by the Company or entities which are variable interest entities ("VIEs") in which the Company is the primary beneficiary under FASB Interpretation No. 46,

Consolidation of Variable Interest Entities (revised December 2003) ("FIN 46R"). FIN 46R requires a VIE to be consolidated by its primary beneficiary. The primary beneficiary is the party that absorbs the majority of the VIE's expected losses and/or the majority of the expected returns. The Company has evaluated its investments for potential variable interests by evaluating the sufficiency of the entity's equity investment at risk to absorb losses. All significant inter-company balances and transactions have been eliminated in consolidation.

The Company has analyzed the governing pooling and servicing agreements for each of its Controlling Class CMBS and believes that the terms are industry standard and are consistent with the qualifying special-purpose entity ("QSPE") criteria. However, there is uncertainty with respect to QSPE treatment due to ongoing review by accounting standard setters, potential actions by various parties involved with the QSPE, as well as varying and evolving interpretations of the QSPE criteria under SFAS No. 140. Additionally, the standard setters continue to review the FIN 46R provisions related to the computations used to determine the primary beneficiary of a VIE. Future guidance from the standard setters may require the Company to consolidate CMBS trusts in which the Company has invested.

Mortgage Loans

The Company purchases and originates commercial mortgage loans to be held as long-term investments. The Company also has investments in private opportunity funds that invest in commercial mortgage loans that are managed by the Manager. Management periodically must evaluate each loan for possible impairment. Impairment is indicated when it is deemed probable that the Company will not be able to collect all amounts due according to the contractual terms of the loan. If a loan were determined to be impaired, the Company would establish a reserve for probable losses and a corresponding charge to earnings. Given the nature of the Company's loan portfolio and the underlying commercial real estate collateral, significant judgment of management is required in determining impairment and the resulting loan loss allowance, which includes but is not limited to making assumptions regarding the value of the real estate that secures the mortgage loan. To date, the Company has determined that no loan loss allowances have been necessary on the loans in its portfolio or held by the opportunity funds.

Derivative Instruments

The Company utilizes various hedging instruments (derivatives) to hedge interest rate and foreign currency exposures or to modify the interest rate or foreign currency characteristics of related Company investments. All derivatives are carried at fair value, generally estimated by management based on valuations provided by the counterparty to the derivative contract. For accounting purposes, the Company's management must decide whether to designate these derivatives as either a hedge of an asset or liability, securities available-for-sale, securities held-for-trading, or foreign currency exposure. This designation decision affects the manner in which the changes in the fair value of the derivatives are reported.

Recent Accounting Pronouncements

Accounting Changes and Corrections

In June 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections ("SFAS No. 154"). SFAS No. 154 replaces APB Opinion No. 20, Accounting Changes, and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements. SFAS No. 154 requires that a voluntary change in accounting principle be applied retrospectively with all prior period financial statements presented in accordance with the new accounting principle. SFAS No. 154 also requires that a change in the method of depreciating or amortizing a long-lived non-financial asset be accounted for prospectively as a change in

estimate, and correction of errors in previously issued financial statements should be termed "restatements." SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The implementation of SFAS No. 154 is not expected to have a significant impact on the Company's consolidated financial statements.

Variable Interest Entities

In March 2005, the FASB issued FASB Staff Position ("FSP") FIN 46(R)-5, Implicit Variable Interests Under FIN 46. FSP FIN 46(R)-5 states that a reporting entity should consider whether it holds an implicit variable interest in a VIE or in a potential VIE. If the aggregate of the explicit and implicit variable interests held by the reporting entity and its related parties would, if held by a single party, identify that party as the primary beneficiary, the

party within the group most closely associated with the VIE should be deemed the primary beneficiary. The effective date of FSP FIN 46(R)-5 was the first reporting period beginning after March 31, 2005. The adoption of FSP FIN 46(R)-5 did not have a significant impact on the Company's consolidated financial statements.

Share Based Payment

In December 2004, the FASB issued SFAS No. 123R, Share-Based Payment. This statement is a revision to SFAS No. 123, Accounting for Stock-Based Compensation, and superseded Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees. This statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, primarily focusing on the accounting for transactions in which an entity obtains employee services in share-based payment transactions. Entities will be required to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service (usually the vesting period) in exchange for the award. The grant-date fair value of employee share options and similar instruments will be estimated using option-pricing models. If an equity award is modified after the grant date, incremental compensation cost will be recognized in an amount equal to the excess of the fair value of the modified award over the fair value of the original award immediately before the modification. As amended by Rule 4-01(a) of Regulation S-X promulgated by the SEC, this statement is effective as of the beginning of the first interim or annual reporting period of the Company's first fiscal year beginning on or after December 15, 2005. The Company will adopt SFAS No. 123R, as amended, effective January 1, 2006. The Company has determined that this statement will not impact the Company's consolidated financial statements, as there are no unvested options at December 31, 2005 and the Company already applies the fair value method to all newly-issued options.

Other-Than-Temporary-Impairments

In March 2004, the EITF reached a consensus on the Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments ("EITF No. 03-1"). The EITF reached a consensus on an other-than-temporary impairment model for debt and equity securities accounted for under SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, and cost method investments. In September 2004, the FASB issued FSP EITF No. 03-1-1, Effective Date of Paragraphs 10-20 of EITF Issue No. 03-1. This FSP delayed the effective date of the measurement and recognition guidance contained in paragraphs 10-20 of EITF No. 03-1. In November 2005, the FASB issued FSP FAS 115-1 and FAS 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments. This FSP nullifies certain requirements of EITF No. 03-1 and supersedes EITF Abstracts, Topic No. D-44, Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value. Based on the clarification provided in FSP FAS 115-1 and FAS 124-1, the amount of any other-than-temporary impairment that needs to be recognized will continue to be dependent on market conditions, the occurrence of certain events or changes in circumstances relative to an investee and an entity's intent and ability to hold the impaired investment at the time of the valuation. FSP FAS 115-1 and FAS 124-1 is effective for reporting periods beginning after December 15, 2005. Adoption of this FSP does not have a material effect on the Company's consolidated financial statements.

Reverse Repurchase Agreements

The Company understands that the FASB is considering placing an item on its agenda relating to the treatment of transactions where mortgage-backed securities purchased from a particular counterparty are financed via a repurchase agreement with the same counterparty. Currently, the Company records such assets and the related financing gross on the consolidated statement of financial condition, and the corresponding interest income and interest expense gross on the consolidated statement of operations. Any change in fair value of the security is reported through other comprehensive income under SFAS No. 115, because the security is classified as available-for-sale. However, in a transaction where the mortgage-backed securities are acquired from and financed under a repurchase agreement with the same counterparty, the acquisition may not qualify as a sale from the seller's perspective under the provisions of SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. In such cases, the seller may be required to continue to consolidate the assets sold to the Company, based on their continuing involvement with such investments. Depending on the ultimate outcome of the FASB deliberations, the Company may be precluded from presenting the assets gross on our balance sheet and should instead be treating our net investment in such assets as a derivative. If it is determined that these transactions should be treated as investments in derivatives, the derivative instruments entered into by the Company to hedge the Company's interest rate exposure with respect to the borrowings under the associated repurchase agreements may no longer qualify for hedge accounting, and would then, as with the underlying asset transactions, also be marked to market through the income statement. This potential change in accounting treatment does not affect the economics of the transactions but does affect how the transactions would be reported in the consolidated financial statements. The Company's cash flows, liquidity and ability to pay a dividend would be unchanged, and we do not believe our REIT taxable income or REIT status would be affected. The Company's net equity would not be materially affected. At December 31, 2005, the Company has identified available-for-sale securities with a fair value of $59,292 which had been purchased from and financed with the same counterparty since their purchase. If the Company were to change the current accounting treatment for these transactions at December 31, 2005, total assets and total liabilities would each be reduced by approximately $59,292.

Interest Income: The following tables set forth information regarding income from certain of the Company's interest-earning assets.

	Years Ended December 31,			Var 2005 vs. 2004	
	2005	2004	2003	Variance	%
Commercial real estate securities	$142,634	$123,860	$98,113	$18,774	15.2%
Commercial mortgage loan pools	54,025	39,672	-	14,353	36.2
Commercial real estate loans	23,183	11,896	5,875	11,287	94.9
RMBS	9,849	18,901	54,504	(9,052)	(47.9)
Cash and cash equivalents	2,077	638	964	1,439	225.5
Total	$231,768	$194,967	$159,456	$36,801	18.9%

The following chart reconciles interest income and total income for the years ended December 31, 2005, 2004 and 2003.

	Years Ended December 31,			Va	
				2005 vs. 2004	
	2005	2004	2003	Variance	%
Interest income	$231,768	$194,967	$159,456	$36,801	18.9%
Earnings from real estate joint ventures	59	1,097	955	(1,038)	(94.6)
Earnings from the equity investments	12,087	7,060	3,367	5,027	71.2
Other income	-	742	-	(742)	n/a
Total Income	$243,914	$203,866	$163,778	$40,048	19.6%

For the year ended December 31, 2005 versus 2004, interest income increased $36,801, or 18.9%. For the year ended December 31, 2004 versus 2003, interest income increased $35,511, or 22.3%. The Company continued to increase its investments in commercial real estate assets, while RMBS investments declined as the Company completed the repositioning of its portfolio into commercial real estate assets. Commercial real estate securities and commercial real estate loans increased 23.1% and 30.8%, respectively, during 2005. Commercial real estate securities and commercial real estate loans increased 16.9% and 232.0%, respectively, during 2004. The consolidation of a VIE that included commercial mortgage loan pools contributed $14,353 to the increase during 2005 and $36,672 to the increase during 2004. The VIE was consolidated for twelve months of 2005 and for nine months of 2004 as the entity was acquired in April 2004.

Interest Expense: The following table sets forth information regarding the total amount of interest expense from certain of the Company's borrowings and cash flow hedges.

	Years Ended December 31,			Varianc		
				2005 vs. 2004		
	2005	2004	2003	Variance	%	Va
Collateralized debt	$69,794	$58,986	$44,226	$10,808	18.3%	$

obligations						
Commercial mortgage loan pools*	50,988	37,527	-	13,461	35.9%	
Commercial real estate securities	17,107	7,398	4,341	9,709	131.2%	
Commercial real estate loans	5,907	1,790	526	4,117	230.0%	
RMBS	9,821	7,016	16,072	2,805	40.0%	
Junior subordinated notes - net	1,543	-	-	1,543	n/a	
Cash flow hedges	7,110	14,434	18,790	(7,324)	(50.7)%	
Hedge ineffectiveness**	1,188	1,015	(706)	173	17.0%	
Total Interest Expense	$163,458	$128,166	$83,249	$35,292	27.5%	$

* Includes $124 and $119 of interest expense for the years ended December 31, 2005 and 2004, respectively, from short-term financings of securities related to the consolidation of commercial mortgage loan pools.
**See Note 15 of the consolidated financial statements, Derivative Instruments and Hedging Activities, for a further description of the Company's hedge ineffectiveness.

Interest expense increased $35,292, or 27.5%, from 2004 to 2005, as well as $44,917, or 54.0%, from 2003 to 2004. The consolidation of a VIE (see Note 5 of the consolidated financial statements) that included commercial mortgage loan pools contributed $13,461 to the 2005 increase and $37,527 to the 2004 increase. The VIE was consolidated for twelve months of 2005 and for nine months of 2004 as the entity was acquired in April 2004. The growth of the portfolio along with the increase in LIBOR over the year contributed to the majority of the increase in expense related to commercial real estate securities as well as commercial real estate loans. Hedging expense not related to CDOs decreased $7,324, or 50.7%, during 2005 and $4,356, or 23.2%, during 2004. The decrease is due to the removal of interest rate swaps upon the issuance of fixed rate liabilities in connection with CDOs HY1 and CDO HY2. The increase in interest expense related to CDOs of $10,808, or 18.3% during 2005 and $14,760, or 33.4%, during 2004, is primarily attributable to the issuance of CDO III and CDO HY2 which was accounted for as a secured financing from July 2005 through December 2006.

Net Interest Margin and Net Interest Spread from the Portfolio: The Company considers its portfolio to consist of its securities available-for-sale, securities held-for-trading, commercial mortgage loans, and cash and cash equivalents because these assets relate to its core strategy of acquiring and originating high yield loans and securities backed by commercial real estate, while at the same time maintaining a portfolio of investment grade securities to enhance the Company's liquidity.

Net interest margin from the portfolio is annualized net interest income divided by the average estimated fair value of interest-earning assets. Net interest income is total interest income less interest expense related to collateralized borrowings. Net interest spread equals the yield on average assets for the period less the average cost of funds for the period. The yield on average assets is interest income divided by average amortized cost of interest earning assets. The average cost of funds is interest expense from the portfolio divided by average outstanding collateralized borrowings.

The following chart describes the interest income, interest expense, net interest margin and net interest spread for the Company's portfolio. The

following interest income and interest expense amounts exclude income and expense related to hedge ineffectiveness, and the gross-up effect of the consolidation of a VIE that includes commercial mortgage loan pools. The Company believes interest income and expense excluding the effects of these items better reflects the Company's net interest margin and net interest spread from the portfolio.

	For the Year Ended December 31, 2005	2004	2003
Interest income	$181,134	$159,036	$159,456
Interest expense	111,517	$88,942	$83,930
Net interest margin	2.98%	3.16%	3.08%
Net interest spread	2.29%	2.45%	2.68%

Other Expenses: Expenses other than interest expense consist primarily of management fees and general and administrative expenses. The table below summarized those expenses for the years ended December 31, 2005, 2004 and 2003, respectively.

	For the Years ended December 31,			Vari	
				2005 vs. 2004	
	2005	2004	2003	Variance	%
Management fee	$10,974	$8,956	$9,411	$6,308	70.4%
Incentive fee	4,290	-	-	4,290	n/a
General and administrative expense	3,917	3,427	2,296	490	14.3%
Total other expenses	$19,181	$12,383	$11,707	$6,798	54.9%

Commencing in March 2004, management fees are based on 2% of average quarterly stockholders' equity. The increase of $6,308, 70.4%, is primarily due to the increase in the Company's stockholders' equity. Additionally, during the 2003, the Manager voluntarily reduced its management fees by 20% from its calculated amount for the third and fourth quarter of 2003 and the first quarter of 2004. This revision resulted in $1,046 in savings to the Company during 2003 and $532 during 2004, respectively. The Manager earned an incentive fee of $4,290 in 2005 as the Company achieved the necessary performance goals specified in the Management Agreement.

General and administrative expense is comprised of accounting agent fees, custodial agent fees, directors' fees, fees for professional services, insurance premiums, broken deal expenses, and due diligence costs. The increase in general and administrative expense for the year ended December 31, 2005 is primarily attributable to costs associated with the Company's global expansion. General and administrative expense for the year ended December 31, 2004 rose primarily due to an increase in professional fees related to Sarbanes-Oxley Act compliance and legal fees in connection with the Company's claim for a supplemental fee on a repaid commercial mortgage loan.

Other Gains (Losses): During the years ended December 31, 2005, 2004 and 2003, respectively, the Company sold a portion of its securities available-for-sale resulting in realized gains (losses) of $16,543, $17,544 and $(6,832). The gain on sales of securities available-for-sale during 2004 and 2005, respectively, primarily are attributable to CDOs HY1 and HY2. The loss on securities held-for-trading of $1,999, $11,464 and $38,206 for the years ended December

31, 2005, 2004 and 2003, respectively, consisted primarily of realized and unrealized gains and losses on U.S. Treasury and Agency securities, forward commitments to purchase or sell agency RMBS and hedges. The foreign currency loss of $134 and $187 for the years ended December 31, 2005 and 2004, respectively, relates to the Company's hedging of its net investment in commercial mortgage loans denominated in pounds sterling and euros. The losses on impairment of assets of $5,088, $26,018 and $32,426, for the years ended December 31, 2005, 2004 and 2003, respectively, were related to the impairment charges of Controlling Class CMBS and franchise loan backed securities under EITF 99-20. (See Note 3 of the consolidated financial statements.)

Results of Operations

Net income for the year ended December 31, 2005 was $70,597, or $1.20 per share (basic and diluted).
Net income for the year ended December 31, 2004 was $43,192, or $0.50 per share (basic and diluted).
Net loss for the year ended December 31, 2003 was $(8,642), or $(0.34) per share (basic and diluted).

Dividends Declared: During the year ended December 31, 2005, the Company declared dividends to stockholders totaling $61,168, or $1.12 per share, of which $45,394 was paid during the 2005 calendar year and $15,774 was paid on February 1, 2006. During the year ended December 31, 2004, the Company declared dividends to stockholders totaling $58,208, or $1.12 per share, of which $43,287 was paid during the year and $14,920 was paid on February 1, 2005. For U.S. Federal income tax purposes, the dividends are ordinary income to the Company's stockholders.

Changes in Financial Condition

Securities Available-for-sale: The Company's securities available-for-sale, which are carried at estimated fair value, included the following at December 31, 2005 and December 31, 2004:

Security Description	December 31, 2005 Estimated Fair Value	Percentage	De 31 Est F V
Commercial mortgage-backed securities:			
CMBS IOs	$103,363	5.0%	$12
Investment grade CMBS	509,835	24.5	38
Non-investment grade rated subordinated securities	675,995	32.5	75
Non-rated subordinated securities	26,411	1.3	
Credit tenant lease	24,837	1.2	2
Investment grade REIT debt	255,767	12.3	28
Project loans	263,362	12.7	2
CDO investments	124,549	6.0	1
Total CMBS	1,984,119	95.5	1,62
Single-family residential mortgage-backed securities:			
Agency adjustable rate securities	76,491	3.7	11
Residential CMOs	725	0.1	

Hybrid adjustable rate mortgages ("ARMs")	15,601	0.7	2
Total RMBS	92,817	4.5	13
Total securities available-for-sale	$2,076,936	100.0%	$1,76

The decrease in RMBS is attributable to the Company's strategic reduction of the RMBS portfolio.

Borrowings: At December 31, 2005 and 2004, the Company's debt consisted of lines of credit, CDOs, trust preferred securities, reverse repurchase agreements, and commercial mortgage loans pools collateralized by a pledge of most of the Company's securities available-for-sale, securities held-for-trading, and its commercial mortgage loans. The Company's financial flexibility is affected by its ability to renew or replace on a continuous basis its maturing short-term borrowings. At December 31, 2005 and 2004, the Company obtained financing in amounts and at interest rates consistent with the Company's short-term financing objectives.

Under the lines of credit and reverse repurchase agreements the lender retains the right to mark the underlying collateral to its estimated fair value. A reduction in the value of its pledged assets would require the Company to provide additional collateral or fund margin calls.

The following table sets forth information regarding the Company's borrowings:

		For the Year Ended December 31, 2005	
	December 31, 2005 Balance	Maximum Balance	
CDO debt*	$1,066,930	$1,306,963	
Commercial mortgage loan pools	1,278,908	1,294,058	
Reverse repurchase agreements	816,641	888,712	16
Lines of credit and term loan borrowings	284,675	350,554	13
Junior subordinated notes	77,380	77,380	

		For the Year Ended December 31, 2004
	December 31, 2004 Balance	Maximum Balance
CDO debt*	$1,067,967	$1,068,210
Commercial mortgage loan pools	1,294,058	$1,298,984

Reverse repurchase agreements	640,675	1,148,306
Lines of credit and term loan borrowings	163,676	391,511

* Disclosed as adjusted issue price. Total par of the Company's CDO debt at December 31, 2005 and 2004 was $1,079,463 and $1,081,418, respectively. ** The junior subordinated notes can be redeemed at par by the Company beginning in October 2010.

Hedging Instruments: From time to time, the Company may modify its exposure to market interest rates by entering into various financial instruments that adjust portfolio duration. These financial instruments are intended to mitigate the effect of changes in interest rates on the value of the Company's assets and the cost of borrowing.

Interest rate hedging instruments at December 31, 2005 and 2004 consisted of the following:

	At December 31, 2005			
	Notional Value	Estimated Fair Value	Unamortized Cost	Avera Te
Cash flow hedges	$500,350	$6,234	-	
CDO cash flow hedges	701,603	10,616	-	
Trading swaps	133,000	4,032	-	
CDO timing swaps	223,445	(37)	-	
CDO LIBOR cap	85,000	1,419	1,407	

	At December 31, 2004			
	Notional Value	Estimated Fair Value	Unamortized Cost	Avera Te
Cash flow hedges	$452,600	$253	-	
CDO cash flow hedges	718,120	(11,262)	-	
Trading swaps	16,000	(5)	-	
CDO timing swaps	223,445	145	-	
CDO LIBOR cap	85,000	694	1,407	

The counterparties for the Company's swaps are Deutsche Bank, AG, Merrill Lynch Capital Services, Inc., Goldman Sachs Capital Markets, L.P., Lehman Special Financing Inc., and Morgan Stanley Capital Services Capital, Inc. with ratings of AA-, A+, A+, AA-, and A+, respectively. The Company continually monitors the rating and overall credit quality of its swap counterparties.

Capital Resources and Liquidity

The Company requires capital to fund its investment activities and operating expenses. The Company has sufficient access to capital resources to fund its existing business plan. The Company's capital sources include cash flow from

operations, borrowings under reverse repurchase agreements, lines of credit, CDOs, and the issuance of preferred and common equity securities.

The distribution requirements under the REIT provisions of the Code limit the Company's ability to retain earnings and thereby replenish or increase capital committed to its operations. However, the Company believes that its access to significant capital resources and financing will enable the Company to meet current and anticipated capital requirements.

The Company believes that its existing sources of funds will be adequate for purposes of meeting its short- and long-term liquidity needs. The Company's ability to meet its long-term (i.e., beyond one year) liquidity requirements is subject to obtaining additional debt and equity financing. Any decision by the Company's lenders and investors to provide the Company with financing will depend upon a number of factors, such as the Company's compliance with the terms of its existing credit arrangements, the Company's financial performance, industry or market trends, the general availability of and rates applicable to financing transactions, such lenders' and investors' resources and policies concerning the terms under which they make capital commitments and the relative attractiveness of alternative investment or lending opportunities.

Reverse Repurchase Agreements and Lines of Credit

Reverse repurchase agreements are secured loans generally with a term of 30 days. The interest rate is based on 30-day LIBOR plus a spread that is determined based on the asset pledged as security. The terms include a daily mark to market provision that requires the posting of additional collateral if the value of the pledged asset declines. After the 30-day period expires, there is no obligation for the lender to extend credit for an additional period. This type of financing generally is available only for more liquid securities. The interest rate charged on reverse repurchase agreements is usually the lowest relative to the alternatives due to the lower risk inherent in these transactions.

Committed financing facilities represent multi-year agreements to provide secured financing for a specific asset class. These facilities include a mark to market provision requiring the Company to repay borrowings if the value of the pledged asset declines in excess of the threshold amount. A significant difference between committed financing facilities and reverse repurchase agreements is the term of the financing. A committed facility provider generally is required to provide financing for the full term of the agreement, usually two to three years, rather than thirty days as generally used in the reverse repurchase market. This longer term makes the financing of less liquid assets viable.

CDOs

Issuance of secured term debt is generally done through a CDO offering. This entails creating a special purpose entity that holds assets used to secure the payments required of the debt issued. Asset cash flows generally are matched with the debt service requirements over their respective lives and an interest rate swap is used to match the fixed or floating rate nature of the coupon payments where necessary. This type of transaction is usually referred to as "match funding" or "term financing" the assets. There is no mark to market requirement in this structure and the debt cannot be called or terminated by the bondholders. Furthermore, the debt issued is non-recourse to the issuer; and therefore permanent reductions in value do not affect the liquidity of the Company. However, since the Company expects to earn a positive spread between

the income generated by the assets and the expense of the debt issued, a permanent impairment of any of the assets would negatively affect the spread over time.

At December 31, 2005, the Company's collateralized borrowings had the following remaining maturities:

	Reverse Repurchase Agreements	Lines of Credit	Commercial Mortgage Loan Pools	Collateralized Debt Obligations
Within 30 days	$796,365	$-	$-	$
31 to 59 days	20,276	-	-	
60 days to less than 1 year	-	113,009	-	
1 year to 3 years	-	171,666	-	
3 years to 5 years	-	-	-	
Over 5 years	-	-	1,272,931	1,066,93
	$816,641	$284,675	$1,272,931	$1,066,93

* Comprised of $406,208 of CDO debt with a weighted average remaining maturity of 6.29 years at December 31, 2005 and $292,807 of CDO debt with a weighted average remaining maturity of 6.68 years at December 31, 2005, and $367,915 of CDO debt with a weighted average remaining maturity of 7.39 years at December 31, 2005.

Trust Preferred

On September 26, 2005, the Company issued $75,000 of trust preferred securities through its wholly owned subsidiary, Anthracite Capital Trust I, a Delaware statutory trust ("Trust I"). The trust

preferred securities have a thirty-year term ending October 30, 2035 with interest at a fixed rate of 7.497% for the first ten years and at a floating rate of three-month LIBOR plus 2.9% thereafter. The trust preferred securities can be redeemed at par by the Company beginning in October 2010. Trust I issued $2,380 aggregate liquidation amount of common securities, representing 100% of the voting common stock of Trust I to the Company for a purchase price of $2,380. The Company realized net proceeds from this offering of approximately $72,618.

On February 2, 2006, the Company issued $50,000 of trust preferred securities through its wholly owned subsidiary, Anthracite Capital Trust II, a Delaware statutory trust ("Trust II"). The trust preferred securities have a thirty-year term ending April 30, 2036 with interest at a fixed rate of 7.73% for the first ten years and at a floating rate of three-month LIBOR plus 2.7% thereafter. The trust preferred securities can be redeemed at par by the Company beginning in April 2011. Trust II issued $1,550 aggregate liquidation amount of common securities, representing 100% of the voting common stock of Trust II to the Company for a purchase price of $1,550. The Company realized net proceeds from this offering of approximately $48,491.

On March 16, 2006, the Company issued $50,000 of trust preferred securities through its wholly owned subsidiary, Anthracite Capital Trust III, a Delaware statutory trust ("Trust III" and collectively with Trust I and Trust II, the "Trusts"). The trust preferred securities have a thirty-year term ending March 30, 2036 with interest at a fixed rate of 7.77% for the first ten years and at a floating rate of three-month LIBOR plus 2.7% thereafter. The trust preferred securities can be redeemed at par by the Company beginning in March 2011. Trust III issued $1,547 aggregate liquidation amount of common securities, representing 100% of the voting common stock of Trust III to the Company for a purchase price of $1,547. The Company realized net proceeds from this offering of approximately $48,435.

Equity Issuances

The Company may issue preferred stock from time to time as a source of long-term or permanent capital. Preferred stock generally has a fixed coupon and may have a fixed term in the form of a maturity date or other redemption or conversion features. The preferred stockholder typically has the right to a preferential distribution for dividends and any liquidity proceeds.

Another source of permanent capital is the issuance of common stock through a follow-on offering. This allows investors to purchase a large block of common stock in one transaction. A common stock issuance can be accretive to the Company's book value per share if the issue price per share exceeds the Company's book value per share. It also can be accretive to earnings per share if the Company deploys the new capital into assets that generate a risk adjusted return that exceeds the return of the Company's existing assets. Furthermore, earnings accretion also can be achieved at reinvestment rates that are lower than the return on existing assets if common stock is issued at a premium to book value.

The Company continuously evaluates the market for follow-on Common Stock offerings as well as the available opportunities to deploy new capital on an accretive basis. In 2005, the Company issued 1,725,000 shares of Common Stock in a follow-on offering at $11.59 per share. In 2004, the Company issued 2,415,000 shares of Common Stock in a follow-on offering at $11.50 per share. Additionally, for the years ended December 31, 2005 and 2004, respectively, the Company issued 1,318,568 and 1,084,619 shares of Common Stock under its Dividend Reinvestment Plan. Net proceeds to the Company under the Dividend Reinvestment Plan were approximately $14,327 and $12,691, respectively.

Off Balance Sheet Arrangements

The Company's ownership of the subordinated classes of CMBS from a single issuer gives it the right to influence the foreclosure/workout process on the underlying loans ("Controlling Class CMBS"). FIN

46(R)-5 has certain scope exceptions, one of which provides that an enterprise that holds a variable interest in a qualifying special-purpose entity ("QSPE") does not consolidate that entity unless that enterprise has the unilateral ability to cause the entity to liquidate. SFAS No. 140 provides the requirements for an entity to be considered a QSPE. To maintain the QSPE exception, the trust must continue to meet the QSPE criteria both initially and in subsequent periods. A trust's QSPE status can be impacted in future periods by activities by its transferors or other involved parties, including the manner in which certain servicing activities are performed. To the extent its CMBS investments were issued by a trust that meets the requirements to be

considered a QSPE, the Company records the investments at the purchase price paid. To the extent the underlying trusts are not QSPEs the Company follows the guidance set forth in FIN 46(R)-5 as the trusts would be considered VIEs.

The Company has analyzed the governing pooling and servicing agreements for each of its Controlling Class CMBS and believes that the terms are industry standard and are consistent with the QSPE criteria. However, there is uncertainty with respect to QSPE treatment due to ongoing review by accounting standard setters, potential actions by various parties involved with the QSPE, as discussed above, as well as varying and evolving interpretations of the QSPE criteria under SFAS No. 140. Additionally, the standard setters continue to review the FIN 46(R)-5 provisions related to the computations used to determine the primary beneficiary of a VIE. Future guidance from the standard setters may require the Company to consolidate CMBS trusts in which the Company has invested.

At December 31, 2005, the Company owned securities of 22 Controlling Class CMBS trusts with a par of $814,369. The total par amount of CMBS issued by the 22 trusts was $32,853,254. One of the Company's 22 Controlling Class trusts does not qualify as a QSPE and has been consolidated by the Company (see Note 5 of the consolidated financial statements).

The Company's maximum exposure to loss as a result of its investment in these VIEs totaled $565,231 and $479,636 at December 31, 2005 and 2004, respectively.

In addition, the Company has completed two securizations that qualify as QSPE's under SFAS No. 140. Through CDO HY1 and HY2 the Company issued non-recourse liabilities secured by commercial related assets including portions of 17 Controlling Class CMBS. Should future guidance from the standard setters determine that Controlling Class CMBS are not QSPE's, the Company would be required to consolidate the assets, liabilities, income and expense of CDO HY1 and CDO HY2.

The Company's total maximum exposure to loss as a result of its investment in CDOs HY1 and HY2 at December 31, 2005 and 2004, respectively, is $109,003 and 15,851.

At December 31, 2005, the Company also owns non-investment debt and preferred securities in LEAFs CMBS I Ltd ("Leaf"), a QSPE under SFAS No. 140. Leaf issued non-recourse liabilities secured by investment grade commercial real estate securities.

At December 31, 2005 and 2004, the Company's total maximum exposure to loss as a result of its investment in Leaf is $3,573 and $3,599, respectively.

Cash Flows

Cash provided by the Company's operating activities totaled $105,451, $125,756 and $554,031 for the years ended December 31, 2005, 2004 and 2003, respectively, primarily through net income, and sale of trading securities.

Net cash flow used in investing activities was $419,992, $95,022 and $222,023 for the years ended December 31, 2005, 2004 and 2003, respectively, primarily to purchase securities available for sale and to fund commercial mortgage loans, offset by sales of securities.

Net cash flow provided by (used in) financing activities was $329,420,

$(27,784) and $(335,901) for the years ended December 31, 2005, 2004 and 2003 respectively, primarily due to borrowings and repayments under reverse repurchase agreements and credit facilities and dividends payments, offset by common stock issuances, and in 2004, collateralized debt obligations issuances. In addition, at the end of the first quarter of 2004, the Board of Directors approved the Company's decision to redeem its Series B Preferred Stock, $0.001 par value per share ("Series B Preferred Stock") for $43,930. The Series B Preferred Stock was redeemed on May 6, 2004.

Transactions with Affiliates

The Company has a Management Agreement with the Manager, a majority owned indirect subsidiary of The PNC Financial Services Group, Inc. and the employer of certain directors and all of the officers of the Company, under which the Manager manages the Company's day-to-day operations, subject to the direction and oversight of the Company's Board of Directors. Pursuant to the Management Agreement, the Manager formulates investment strategies, arranges for the acquisition of assets, arranges for financing, monitors the performance of the Company's assets and provides certain other advisory and managerial services in connection with the operations of the Company. For performing these services, the Company pays the Manager a base management fee equal to 2.0% of the quarterly average total stockholders' equity for the applicable quarter.

To provide an incentive the Manager is entitled to receive an incentive fee equal to 25% of the amount by which the rolling four-quarter GAAP net income before the incentive fee exceeds the greater of 8.5% or 400 basis points over the ten-year Treasury note multiplied by the adjusted per share issue price of the common stock ($11.38 per common share at December 31, 2005).

The Company's unaffiliated directors approved an extension of the Management Agreement to March 30, 2007 at the Board's February 2006 meeting. Additionally, pursuant to a resolution of the Company's Board of Directors adopted at the February 2006 meeting, up to 30% of the incentive fees earned in 2005 or after may be paid in shares of the Company's Common Stock subject to certain provisions. The Board of Directors also authorized the Company to seek shareholders' approval of a compensatory deferred stock plan.

The Company incurred $10,974, $8,956 and $9,411 in base management fees in accordance with the terms of the Management Agreement for the years ended December 31, 2005, 2004 and 2003, respectively. In accordance with the provisions of the Management Agreement, the Company recorded reimbursements to the Manager of $350, $120 and $66 for certain expenses incurred on behalf of the Company during 2005, 2004 and 2003, respectively.

During the third quarter of 2003, the Manager voluntarily reduced its management fees by 20% from its calculated amount for the third and fourth quarter of 2003 and the first quarter of 2004. This revision resulted in $1,046 in savings to the Company during 2003 and $532 during 2004, respectively.

The Company has administration and investment accounting agreements with the Manager. Under the terms of the administration agreement, the Manager provides financial reporting, audit coordination and accounting oversight services to the Company. Under the terms of the investment accounting agreement, the Manager provides investment accounting services to the Company. For the years ended December 31, 2005, 2004 and 2003, the Company paid administration fees of $209, $174 and $173, respectively, which are included in general and administrative expense on the accompanying statement of operations. No payments were made each of the three years in the period ended December 31, 2005.

The special servicer on 18 of the Company's 22 Controlling Class trusts is Midland Loan Services, Inc. ("Midland"), a wholly owned indirect subsidiary of PNC Bank. The Company's fees for Midland's services are at market rates.

On December 13, 2005, the Company entered into a $75,000 commitment to acquire shares of BlackRock Diamond. BlackRock Diamond is a private REIT managed by BlackRock Realty Advisors, Inc., a subsidiary of the Manager. At December 31, 2005, 67% of the commitment has been called and the Company owns approximately 27% of BlackRock Diamond. The Company does not incur any additional management or incentive fees to the Manager as a result of its investment in BlackRock Diamond. The Company's investment in BlackRock Diamond at December 31, 2005 was $51,004. During February 2006, the Company increased it capital commitments by an additional $25,000 and received an additional capital call of $24,296. The Company's unaffiliated directors approved this transaction in September 2006.

During 2001, the Company entered into a $50,000 commitment to acquire shares in Carbon I, a private commercial real estate income opportunity fund managed by the Manager. The Carbon I investment period ended on July 12, 2004 and the Company's investment in Carbon I at December 31, 2005 was $18,458. The Company does not incur any additional management or incentive fees to the Manager as a result of its investment in Carbon I. On December 31, 2005, the Company owned approximately 20% of the outstanding shares in Carbon I. The Company's unaffiliated directors approved this transaction in July 2001.

The Company entered into an aggregate commitment of $100,000 to acquire shares in Carbon II, a private commercial real estate income opportunity fund managed by the Manager. At December 31, 2005, the Company's investment in Carbon II was $41,188 and the Company's remaining commitment to Carbon II is $61,742. The Company does not incur any additional management or incentive fees to the Manager as a result of its investment in Carbon II. The Company's unaffiliated directors approved this transaction in September 2004.

REIT Status: The Company has elected to be taxed as a REIT and therefore must comply with the provisions of the Code with respect thereto. Accordingly, the Company generally will not be subject to Federal income tax to the extent of its distributions to stockholders and as long as certain asset, income, and stock ownership tests are met. The Company may, however, be subject to tax at corporate rates or at excise tax rates on net income or capital gains not distributed.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk: Market risk includes the exposure to loss resulting from changes in interest rates, credit curve spreads, foreign currency exchange rates, commodity prices and equity prices. The primary market risks to which the Company is exposed are interest rate risk and credit curve risk. Interest rate risk is highly sensitive to many factors, including governmental, monetary and tax policies, domestic and international economic and political considerations and other factors beyond the control of the Company. Credit curve risk is highly sensitive to the dynamics of the markets for commercial mortgage securities and other loans and securities held by the Company. Excessive supply of these assets combined with reduced demand will cause the market to require a higher yield. This demand for higher yield will cause the market to use a

higher spread over the U.S. Treasury securities yield curve, or other benchmark interest rates, to value these assets. Changes in the general level of the U.S. Treasury yield curve can have significant effects on the estimated fair value of the Company's portfolio.

The majority of the Company's assets are fixed rate securities valued based on a market credit spread to U.S. Treasuries. As U.S. Treasury securities are priced to a higher yield and/or the spread to U.S. Treasuries used to price the Company's assets is increased, the estimated fair value of the Company's portfolio may decline. Conversely, as U.S. Treasury securities are priced to a lower yield and/or the spread to U.S. Treasuries used to price the Company's assets is decreased, the estimated fair value of the Company's portfolio may increase. Changes in the estimated fair value of the Company's portfolio may affect the Company's net income or cash flow directly through their impact on unrealized gains or losses on securities held-for-trading or indirectly through their impact on the Company's ability to borrow. Changes in the level of the U.S. Treasury yield curve can also affect, among other things, the prepayment assumptions used to value certain of the Company's securities and the Company's ability to realize gains from the sale of such assets. In addition, changes in the general level of the LIBOR money market rates can affect the Company's net interest income. At December 31, 2005, all of the Company's liabilities outside of the CDOs are floating rate based on a market spread to LIBOR. As the level of LIBOR increases or decreases, the Company's interest expense will move in the same direction.

The Company may utilize a variety of financial instruments, including interest rate swaps, caps, floors and other interest rate exchange contracts, in order to limit the effects of fluctuations in interest rates on its operations. The use of these types of derivatives to hedge interest-earning assets and/or interest-bearing liabilities carries certain risks, including the risk that losses on a hedge position will reduce the funds available for payments to holders of securities and that such losses may exceed the amount invested in such instruments. A hedge may not perform its intended purpose of offsetting losses or rising interest rates. Moreover, with respect to certain of the instruments used as hedges, the Company is exposed to the risk that the counterparties with which the Company trades may cease making markets and quoting prices in such instruments, which may render the Company unable to enter into an offsetting transaction with respect to an open position. If the Company anticipates that the income from any such hedging transaction will not be qualifying income for REIT income purposes, the Company may conduct part or all of its hedging activities through a to-be-formed corporate subsidiary that is fully subject to federal corporate income taxation. The profitability of the Company may be adversely affected during any period as a result of changing interest rates.

The Company monitors and manages interest rate risk based on a method that takes into consideration the interest rate sensitivity of the Company's assets and liabilities, including its preferred stock. The Company's objective is to acquire assets and match fund the purchase so that interest rate risk associated with financing these assets is reduced or eliminated. The primary risks associated with acquiring and financing these assets under 30-day repurchase agreements and committed borrowing facilities are mark-to-market risk and short-term rate risk. Certain secured financing arrangements

provide for an advance rate based upon a percentage of the estimated fair value of the asset being financed. Market movements that cause asset values to decline would require a margin call or a cash payment to maintain the relationship between asset value and amount borrowed. A cash flow based CDO is

an example of a secured financing vehicle that does not require a mark-to-market to establish or maintain a level of financing. When financed assets are subject to a mark-to-market margin call, the Company carefully monitors the interest rate sensitivity of those assets. The duration of the assets financed which are subject to a mark-to-market margin call was 0.93 years based on net asset value at December 31, 2005. This means that a 100 basis point increase in interest rates would cause a margin call of approximately $5,000.

Earnings per share is analyzed using the assumptions that interest rates, as defined by the LIBOR curve, increase or decrease and that the yield curves of the LIBOR rate shocks will be parallel to each other. Estimated fair value in this scenario is calculated using the assumption that the U.S. Treasury yield curve remains constant even though changes in both long- and short-term interest rates can occur simultaneously.

Regarding the table below, all changes in income and value are measured as percentage changes from the respective values calculated in the scenario labeled as "Base Case." The base interest rate scenario assumes interest rates at December 31, 2005. Actual results could differ significantly from these estimates.

Projected Percentage Change In
Earnings Per Share
Given LIBOR Movements

Change in LIBOR, +/- Basis Points	Projected Change in Earnings per Share
-200	$0.04
-100	$0.02
-50	$0.01
Base Case	
+50	$(0.01)
+100	$(0.02)
+200	$(0.04)

The Company's GAAP book value incorporates the estimated fair value of the Company's interest bearing assets but it does not incorporate the estimated fair value of the Company's interest bearing fixed rate liabilities and preferred stock. The fixed rate liabilities and preferred stock generally will reduce the actual interest rate risk of the Company from a pure economic perspective even though changes in the estimated fair value of these liabilities are not reflected in the Company's reported book value. The Company focuses on economic risk in managing its sensitivity to interest rates and maintains an economic duration within a band of 2.0 to 5.0 years. At December 31, 2005, economic duration for the Company's entire portfolio was 2.45 years. This implies that for each 100 basis points of change in interest rates the Company's economic value will change by approximately 2.5%. At December 31, 2005 the Company estimates its economic value, or net asset value of its common stock to be $513,226.

A reconciliation of the economic duration of the Company to the duration of the reported book value of the Company's common stock is as follows:

Duration - GAAP book value at December 31, 2005	7.4
Less:	

Duration contribution of CDO I liabilities	(1.5)

Duration contribution of CDO II liabilities	(1.3)
Duration contribution of CDO III liabilities	(1.3)
Duration contribution of Series C Preferred Stock	(0.3)
Duration contribution of Junior subordinated notes	(0.5)
Economic duration at December 31, 2005	2.5

The GAAP book value of the Company's common stock is $9.59 per share. As indicated in the table above a 100 basis point change in interest rates will change reported book value by approximately 7.4%, or $44,000. As indicated above, approximately $5,000 of that change would be required to meet margin calls in the event rates rise by 100 basis points.

Credit Risk: The Company's portfolios of commercial real estate assets are subject to a high degree of credit risk. Credit risk is the exposure to loss from loan defaults. Default rates are subject to a wide variety of factors, including, but not limited to, property performance, property management, supply/demand factors, construction trends, consumer behavior, regional economics, interest rates, the strength of the U.S. economy, and other factors beyond the control of the Company.

All loans are subject to a certain probability of default. Before acquiring a Controlling Class security, the Company will perform an analysis of the quality of all of the loans proposed. As a result of this analysis, loans with unacceptable risk profiles are either removed from the proposed pool or the Company receives a price adjustment. The Company underwrites its Controlling Class CMBS investments assuming the underlying loans will suffer a certain dollar amount of defaults and these defaults will lead to some level of realized losses. Loss adjusted yields are computed based on these assumptions and applied to each class of security supported by the cash flow on the underlying loans. The most significant variables affecting loss adjusted yields include, but are not limited to, the number of defaults, the severity of loss that occurs subsequent to a default and the timing of the actual loss. The different rating levels of CMBS will react differently to changes in these assumptions. The lowest rated securities (B- or lower) are generally more sensitive to changes in timing of actual losses. The higher rated securities (B or higher) are more sensitive to the severity of losses and timing of cashflows.

The Company generally assumes that all of the principal of a non-rated security and a significant portion, if not all, of CCC and a portion of B- rated securities will not be recoverable over time. The loss adjusted yields of these classes reflect that assumption; therefore, the timing of when the total loss of principal occurs is the most important assumption in determining value. The interest coupon generated by a security will cease when there is a total loss of its principal regardless of whether that principal is paid. Therefore, timing is of paramount importance because the longer the principal balance remains outstanding, the more interest coupon the holder receives; which results in a larger economic return. Alternatively, if principal is lost faster than originally assumed, there is less opportunity to receive interest coupon; which results in a lower or possibly negative return.

If actual principal losses on the underlying loans exceed assumptions, the higher rated securities will be affected more significantly as a loss of principal may not have been assumed. The Company generally assumes that all principal will be recovered by classes rated B or higher. The Company manages credit risk through the underwriting process, establishing loss assumptions and careful monitoring of loan performance. After the securities have been acquired, the Company monitors the performance of the loans, as well as external factors that may affect their value.

Factors that indicate a higher loss severity or acceleration of the timing of an expected loss will cause a reduction in the expected yield and therefore

reduce the earnings of the Company. Furthermore, the

Company may be required to write down a portion of the adjusted purchase price of the affected assets through its consolidated statements of operations.

For purposes of illustration, a doubling of the losses in the Company's Controlling Class CMBS, without a significant acceleration of those losses, would reduce GAAP income going forward by approximately $0.13 per share of Common Stock per year and cause a significant write down at the time the loss assumption is changed. The amount of the write down depends on several factors, including which securities are most affected at the time of the write down, but is estimated to be in the range of $0.40 to $0.60 per share based on a doubling of expected losses. A significant acceleration of the timing of these losses would cause the Company's net income to decrease. The Company's exposure to a write down is mitigated by the fact that most of these assets are financed on a non-recourse basis in the Company's CDOs, where a significant portion of the risk of loss is transferred to the CDO bondholders. At December 31, 2005, securities with a total estimated fair value of $1,239,220 are collateralizing the CDO borrowings of $1,082,435; therefore, the Company's preferred equity interest in the three CDOs is $156,785 ($2.78 per share). The CDO borrowings are not marked to market in accordance with GAAP even though their economic value will change in response to changes in interest rates and/or credit spreads.

Asset and Liability Management: Asset and liability management is concerned with the timing and magnitude of the re-pricing and/or maturing of assets and liabilities. It is the Company's objective to attempt to control risks associated with interest rate movements. In general, management's strategy is to match the term of the Company's liabilities as closely as possible with the expected holding period of the Company's assets. This is less important for those assets in the Company's portfolio considered liquid, as there is a very stable market for the financing of these securities.

Other methods for evaluating interest rate risk, such as interest rate sensitivity "gap" (defined as the difference between interest-earning assets and interest-bearing liabilities maturing or re-pricing within a given time period), are used but are considered of lesser significance in the daily management of the Company's portfolio. Management considers this relationship when reviewing the Company's hedging strategies. Because different types of assets and liabilities with the same or similar maturities react differently to changes in overall market rates or conditions, changes in interest rates may affect the Company's net interest income positively or negatively even if the Company were to be perfectly matched in each maturity category.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

P

Management's Responsibility for Financial Reporting ....

Management's Report on Internal Control Over Financial Reporting..........................

Report of Independent Registered Public Accounting Firm...................................

Consolidated Financial Statements:

Consolidated Statements of Financial Condition at December 31, 2005 and 2004.................

Consolidated Statements of Operations
For the Years Ended December 31, 2005, 2004 and 2003...

Consolidated Statements of Changes in Stockholders' Equity
For the Years Ended December 31 2005, 2004 and 2003..

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2005, 2004 and 2003...

Notes to Consolidated Financial Statements..

All schedules have been omitted because either the required information is not applicable or the information is shown in the financial statements or notes thereto.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Anthracite Capital, Inc. is responsible for the preparation, quality and fair presentation of its published financial statements. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and, as such, include judgments and estimates of management. Anthracite Capital, Inc. also prepared the other information included in the Annual Report and is responsible for its accuracy and consistency with the consolidated financial statements.

Management is responsible for establishing and maintaining effective internal control over financial reporting. The internal control system is augmented by written policies and procedures and by audits performed by the Manager's internal audit staff. The internal audit staff reports to the Audit Committee of the Manager's parrent, and, for Anthracite Capital-related matters, to the Company's Audit Committee. Internal auditors test the operation of the internal control system and report findings to the Manager, management as well as the Manager's and the Company's Audit Committees, and corrective actions are taken to address identified control deficiencies and other opportunities for improving the internal control system. The Audit Committees, composed solely of outside directors, provide oversight to the financial reporting process.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Anthracite Capital, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended, as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting at December 31, 2005. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework.

Based on its assessment, management concluded that, at December 31, 2005, the Company's internal control over financial reporting is effective.

The Company's independent registered public accounting firm has issued a report on our assessment of the Company's internal control over financial reporting. This report begins on the following page.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Anthracite Capital, Inc.
New York, New York

We have audited management's accompanying assessment, included in the December 31, 2005 Form 10-K of Anthracite Capital, Inc. and subsidiaries (the "Company") under the heading Management's Report on Internal Control over Financial

Reporting, that the Company maintained effective internal control over financial reporting at December 31, 2005, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting at December 31, 2005, is fairly stated, in all material respects, based on the criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting at December 31, 2005, based on the criteria

established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial condition at December 31, 2005, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2005 of the Company and our report dated March 14, 2006 expressed an unqualified opinion on those financial statements.

/s/
Deloitte & Touche LLP
New York, New York

March 14, 2006

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Anthracite Capital, Inc.
New York, New York

We have audited the accompanying consolidated statements of financial condition of Anthracite Capital, Inc. and subsidiaries (the "Company") at December 31, 2005 and 2004, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Anthracite Capital, Inc. and subsidiaries at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting at December 31, 2005, based on the criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 14, 2006 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over

financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

New York, New York
March 14, 2006

Anthracite Capital, Inc.
Consolidated Statements of Financial Condition
(in thousands, except per share data)

		December 31, 2005
ASSETS		
Cash and cash equivalents		$40,556
Restricted cash equivalents		1,246
Securities available-for-sale, at fair value		
CMBS	$826,955	
Investment grade CMBS	1,157,164	
RMBS	92,817	
Total securities available-for-sale		2,076,936
Commercial mortgage loan pools, at amortized cost		1,292,407
Securities held-for-trading, at estimated fair value		
CMBS	21,264	
RMBS	166,209	
Total securities held-for-trading		187,473
Commercial mortgage loans, net		365,806
Equity investments		110,650
Investments in real estate joint ventures		-
Other assets		89,185
Total Assets		$4,164,259
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Borrowings:		
CDOs	$1,066,930	
Secured by pledge of subordinated CMBS	83,213	
Secured by pledge of other securities available-for-sale	606,209	
Secured by pledge of commercial mortgage loan pools	1,278,908	
Secured by pledge of securities held-for-trading	176,361	
Secured by pledge of commercial mortgage loans	229,556	

Junior subordinated notes to subsidiary trust issuing preferred Securities	77,380	
Total borrowings		$3,518,557
Distributions payable		16,673
Other liabilities		31,011
Total Liabilities		$3,566,241
Commitments and Contingencies		
Stockholders' Equity:		
Common Stock, par value $0.001 per share; 400,000 shares authorized; 56,339 shares issued and outstanding in 2005; 53,289 shares issued and outstanding in 2004		56
9.375% Series C Preferred stock, liquidation preference $57,500		55,435
Additional paid-in capital		612,368
Distributions in excess of earnings		(130,038)
Accumulated other comprehensive income		60,197
Total Stockholders' Equity		598,018
Total Liabilities and Stockholders' Equity		$4,164,259

The accompanying notes are an integral part of these consolidated financial statements.

Anthracite Capital, Inc.
Consolidated Statements of Operations (in thousands, except per share data)

	Year ended Dece	
	2005	20
Income:		
Interest from securities available-for-sale	$141,113	$131,3
Interest from commercial mortgage loans	23,183	11,8
Interest from commercial mortgage loan pools	54,025	39,6
Interest from securities held-for-trading	11,370	11,4
Earnings from equity investments	12,087	7,0
Earnings from real estate joint ventures	59	1,0
Interest from cash and cash equivalents	2,077	6
Other income	-	7
Total income	243,914	203,8

Expenses:

Interest	156,865	124,2
Interest - securities held-for-trading	6,593	3,8
Management and incentive fee	15,264	8,9
General and administrative expense	3,917	3,4
Total expenses	182,639	140,5
Other gains (losses):		
Sale of securities available-for-sale	16,543	17,5
Securities held-for-trading	(1,999)	(11,46
Foreign currency loss	(134)	(18
Loss on impairment of assets	(5,088)	(26,01
Total other gains (losses)	9,322	(20,12
Net income (loss)	70,597	43,1
Dividends on Preferred Stock	5,392	6,9
Cost to retire preferred stock in excess of carrying value	-	10,5
Net income (loss) available to Common Stockholders	$65,205	$25,7
Net income (loss) per common share, basic	$1.20	$0.
Net income (loss) per common share, diluted	$1.20	$0.
Weighted average number of shares outstanding:		
Basic	54,144	51,7
Diluted	54,153	51,7

The accompanying notes are an integral part of these consolidated financial statements.

Anthracite Capital, Inc.
Consolidated Statements of Changes in Stockholders' Equity
for the Years Ended December 31, 2005, 2004 and 2003 (in thousands)

	Common Stock, Par Value	Series B Preferred Stock	Series C Preferred Stock	Additional Paid-In Capital	Distributions In Excess Of Earnings	Ac Co In
Balance at January 1, 2003	$47	$36,379		$515,180	$(24,161)	$(
Net Loss					(8,642)	
Unrealized gain on cash flow hedges						
Reclassification adjustments from cash flow hedges included in net loss						
Change in net unrealized loss on						

securities available-for-sale, net of reclassification adjustment						
Other comprehensive income						
Comprehensive income						
Dividends declared-common stock					(61,088)	
Dividends on preferred stock					(7,744)	
Issuance of common stock	2			22,079		
Issuance of Series C preferred stock			$55,435			
Redemption of Series B preferred stock		(2,948)		(926)		
Balance at December 31, 2003	49	33,431	55,435	536,333	(101,635)	(
Net Income					43,192	
Unrealized gain on cash flow hedges						
Reclassification adjustments from cash flow hedges included in net income						
Change in net unrealized gain on securities available-for-sale, net of reclassification adjustment						
Other comprehensive income						
Comprehensive income						
Dividends declared-common stock					(58,208)	
Dividends on preferred stock					(6,916)	
Issuance of common stock	4			42,577		
Conversion of Series B preferred stock to common stock		(9)		9		
Redemption of Series B preferred stock		(33,422)			(10,508)	
Balance at December 31, 2004	53	-	55,435	578,919	(134,075)	
Net Income					70,597	
Unrealized gain on cash flow hedges						
Reclassification adjustments from cash flow hedges included in net income						
Change in net unrealized gain on securities available-for-sale, net of reclassification adjustment						
Other comprehensive income						
Comprehensive income						
Dividends declared-common stock					(61,168)	
Dividends on preferred stock					(5,392)	
Issuance of common stock	3			33,449		
Balance at December 31, 2005	$56	$-	$55,435	$612,368	$(130,038)	

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Disclosure of reclassification adjustment:	Years ended December 31,		
	2005	2004	2003
Unrealized holding gain (loss) on securities available-for-sale	(2,507)	94,834	1,700
Reclassification for realized gains previously recorded as unrealized	16,543	17,544	(6,832)
	14,036	112,378	(5,132)

The accompanying notes are an integral part of these consolidated financial statements.

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Anthracite Capital, Inc.
Consolidated Statements of Cash Flow (in thousands)

	Years
	2005
Cash flows from operating activities:	
Net income (loss)	$70,597
Adjustments to reconcile net income (loss) to net cash provided by operating activities:	
Decrease in trading securities	43,447
Net (gain) loss on sale of securities	(14,544)
Earnings from subsidiary trust	(47)
Distributions from subsidiary trust	45
Earnings from equity investments and real estate joint ventures	(12,146)
Distributions of earnings from equity investments and real estate joint ventures	8,483
Amortization of collateralized debt obligation issuance costs	2,214
Amortization of junior subordinated note issuance costs	34
Premium amortization (discount accretion), net	5,426
Loss on impairment of assets	5,088
Unrealized net foreign currency loss	632
(Increase) decrease in other assets	(2,359)
Increase (decrease) in other liabilities	503
Net cash provided by operating activities	107,373

Cash flows from investing activities:	
Purchase of securities available-for-sale	(517,022)
Proceeds from sale of securities available-for-sale	172,737
Principal payments received on securities available-for-sale	53,779
Purchase of securities related to consolidated variable interest entity	-
Sale of securities related to consolidated variable interest entity	-
Repayments received from commercial mortgage loan pools	7,876
Funding of commercial mortgage loans	(243,557)
Repayments received from commercial mortgage loans	112,830
Sale of commercial mortgage loans	20,072
Decrease (increase) in restricted cash equivalents	18,434
Return of capital from equity investments and joint ventures	26,868
Investment in equity investments	(72,009)
Net cash used in investing activities	(419,992)
Cash flows from financing activities:	
Net increase (decrease) in borrowings under reverse repurchase agreements and credit facilities	293,683
Repayments of borrowings secured by commercial mortgage loan pools	(2,672)
Issuance of collateralized debt obligations	-
Repayments of collateralized debt obligations	(1,955)
Issuance costs for collateralized debt obligations	-
Issuance of junior subordinated notes to subsidiary trust	75,000
Issuance costs of junior subordinated notes	(2,382)
Proceeds from issuance of Series C preferred stock, net of offering costs	-
Redemption of Series B preferred stock	-
Dividends paid on preferred stock	(5,392)
Proceeds from issuance of common stock, net of offering costs	33,452
Dividends paid on common stock	(60,314)
Net cash provided by (used in) financing activities	329,420

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Anthracite Capital, Inc.
Consolidated Statements of Cash Flow (in thousands) (Continued)

	Yea
	2005
Net increase (decrease) in cash and cash equivalents	16,801
Cash and cash equivalents, beginning of year	23,755
Cash and cash equivalents, end of year	$ 40,556

Yea

	2005
Supplemental disclosure of cash flow information:	
Interest paid	$ 105,615
Investments sold not settled	$ -
Supplemental disclosure of non-cash investing and financing activities:	
Securitizations:	
Available-for-sale securities retained	$ 75,844
Residual interests	$ 20,317
Investment in subsidiary trust	$ 2,380
Consolidated variable interest entity:	
Carrying value of assets acquired	$ -
Liabilities assumed	$ -

The accompanying notes are an integral part of these consolidated financial statements.

Anthracite Capital, Inc.
Notes to Consolidated Financial Statements
(in thousands, except share and per share data)

Note 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Company was incorporated in Maryland in November 1997 and commenced operations on March 24, 1998. The Company's principal business activity is to invest in a diversified portfolio of CMBS, multifamily and commercial mortgage loans, and other real estate related assets in the U.S. and non-U.S. markets. The Company is organized and managed as a single business segment.

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

Use of Estimates

In preparing the consolidated financial statements in accordance with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated statements of financial condition and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates and assumptions. Significant estimates in the consolidated financial statements include the valuation of the Company's securities and estimates pertaining to credit performance related to CMBS and commercial real estate loans.

Principles of Consolidation

The consolidated financial statements include the financial statements of the Company and its majority owned subsidiaries, and those VIEs in which the Company is the primary beneficiary under FIN 46R. All significant inter-company balances and transactions have been eliminated in consolidation.

Variable Interest Entities

The Company's ownership of the subordinated classes of CMBS from a single issuer gives it the right to control the foreclosure/workout process on the underlying loans ("Controlling Class CMBS"). FIN 46(R) has certain scope exceptions, one of which provides that an enterprise that holds a variable interest in a qualifying special-purpose entity ("QSPE") does not consolidate that entity unless that enterprise has the unilateral ability to cause the entity to liquidate. SFAS No. 140 provides the requirements for an entity to be considered a QSPE. To maintain the QSPE exception, the trust must continue to meet the QSPE criteria both initially and in subsequent periods. A trust's QSPE status can be impacted in future periods by activities by its transferors or other involved parties, including the manner in which certain servicing activities are performed. To the extent its CMBS investments were issued by a trust that meets the requirements to be considered a QSPE, the Company records the investments at the purchase price paid. To the extent the underlying trusts are not QSPEs the Company follows the guidance set forth in FIN 46(R) as the trusts would be considered VIEs.

The Company has analyzed the governing pooling and servicing agreements for each of its Controlling Class CMBS and believes that the terms are industry standard and are consistent with the QSPE criteria. However, there is uncertainty with respect to QSPE treatment due to ongoing review by accounting standard setters, potential actions by various parties involved with the QSPE, as discussed above, as well as varying and evolving interpretations of the QSPE criteria under SFAS No. 140. Additionally, the standard setters continue to review the FIN 46(R) provisions related to the computations used to determine the primary beneficiary of a VIE. Future guidance from the standard setters may require the Company to consolidate CMBS trusts in which the Company has invested.

At December 31, 2005, the Company owned securities of 22 Controlling Class CMBS trusts with a par of $814,369. However, portions of the non-rated securities of 17 of the 22 Controlling Class CMBS transactions are included in CDO HY1 and CDO HY2 which reduces the Company's exposure to the credit risk in these transactions. The total par amount of CMBS issued by the 22 trusts was $32,853,254. One of the Company's 22 Controlling Class trusts does not qualify as a QSPE and has been consolidated by the Company (see Note 5 of the consolidated financial statements).

The Company's maximum exposure to loss as a result of its investment in these VIEs totaled $565,231 and $479,636 at December 31, 2005 and 2004, respectively.

In addition, the Company has completed two securizations that qualify as QSPE's under SFAS No. 140. Through CDO HY1 and HY2 the Company issued non-recourse liabilities primarily secured by non-investment grade commercial real estate assets including portions of 17 Controlling Class CMBS. Should future guidance from the standard setters determine that Controlling Class CMBS are not QSPE's, the Company would be required to consolidate the assets, liabilities, income and expense of CDO HY1 and CDO HY2.

The Company's total maximum exposure to loss as a result of its investment in CDOs HY1 and HY2 at December 31, 2005 and 2004, respectively, is $109,003 and

$15,851.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and short-term, highly liquid investments with original maturities of three months or less. Cash and cash equivalents are held at major financial institutions, to which the Company is exposed to credit risk.

Deferred Financing Costs

Deferred financing costs, which are included in other assets on the Company's consolidated statements of financial condition, includes issuance costs related to the Company's debt. These costs are amortized by applying the effective interest rate method and the amortization is reflected in interest expense.

Securities Available-for-Sale

The Company has designated certain investments in mortgage-backed securities, mortgage-related securities and certain other securities as assets available-for-sale because the Company may dispose of them prior to maturity and does not hold them principally for the purpose of selling them in the near term. Securities available-for-sale are carried at estimated fair value with the net unrealized gains or losses reported as a component of accumulated other comprehensive income (loss) in stockholders' equity. Unrealized losses on securities that reflect a decline in value that is judged by management to be other than temporary, if any, are charged to earnings. At disposition, the realized net gain or loss is included in income on a specific identification basis.

In accordance with SFAS No. 115, when the estimated fair value of the security classified as available-for-sale has been below amortized cost for a significant period of time and the Company concludes that it no longer has the ability or intent to hold the security for the period of time over which the Company expects the values to recover to amortized cost, the investment is written down to its fair value. The resulting charge is included in income, and a new cost basis established. Additionally, under EITF 99-20, when changes in estimated cash flows from the cash flows previously estimated occur due to actual prepayment and credit loss experience, and the present value of the revised cash flows using the current expected yield is less than the present value of the previously estimated remaining cash flows (adjusted for cash receipts during the intervening period), an other-than-temporary impairment is deemed to have occurred. Accordingly, the security is written down to fair value with the resulting change being included in income, and a new cost basis established. In both instances, the original discount or premium is written off when the new cost basis is established.

Revenue Recognition

The Company recognizes interest income from its purchased beneficial interests in securitized financial interests ("beneficial interests") (other than beneficial interests of high credit quality, sufficiently collateralized to ensure that the possibility of credit loss is remote, or that cannot contractually be prepaid or otherwise settled in such a way that the Company would not recover substantially all of its recorded investment) in accordance with EITF 99-20. Accordingly, on a quarterly basis, when changes in estimated cash flows from the cash flows previously estimated occur due to actual prepayment and credit loss experience, the Company calculates a revised yield based on the current amortized cost of the investment (including any other-than-temporary impairments recognized to date) and the revised cash flows. The revised yield is then applied prospectively to recognize interest income.

For other mortgage-backed and related mortgage securities, the Company accounts for interest income under SFAS No. 91, by applying the effective yield method which includes the amortization of discount or premium arising at the time of purchase and the stated or coupon interest payments. Actual prepayment and credit loss experience is reviewed quarterly and effective yields are recalculated when differences arise between prepayments and credit losses originally anticipated and amounts actually received plus anticipated future prepayments and credit losses.

After taking into account the effect of the impairment charge, income is recognized under EITF 99-20 or SFAS No. 91, as applicable, by applying the market yield used in establishing the write-down.

Securities Held-for-Trading

Securities held-for-trading are carried at estimated fair value with net realized and unrealized gains or losses included in the consolidated statements of operations.

Short Sales

As part of its short-term trading strategies, the Company may sell securities that it does not own ("short sales"). To complete a short sale, the Company may arrange through a broker to borrow the securities to be delivered to the buyer. The broker retains the proceeds received by the Company from the short sale until the Company replaces the borrowed securities, generally within a period of less than one month. In borrowing the securities to be delivered to the buyer, the Company becomes obligated to replace the securities borrowed at their market price at the time of the replacement, whatever that price may be. A gain, limited to the price at which the Company sold the security short, or a loss, unlimited as to dollar amount, will be recognized upon the termination of a short sale if the market price is less than or greater than the proceeds originally received. The Company's liability under short sales is recorded at fair value, with unrealized gains or losses included in net gain or loss on securities held-for-trading in the consolidated statement of operations.

Any broker that holds a deposit as collateral for securities borrowed exposes the Company to credit loss in the event of nonperformance. However, the Company does not anticipate nonperformance by any broker.

Forward Commitments - Trading

As part of its short-term trading strategies, the Company may enter into forward commitments to purchase or sell U.S. Treasury securities or securities issued by Federal Home Loan Mortgage Corporation ("FHLMC"), Federal National Mortgage Association ("FNMA") or Government National Mortgage Association ("GNMA") (collectively "Agency Securities"), which obligate the Company to purchase or sell such securities at a specified date at a specified price. When the Company enters into such a forward commitment, it will, generally within sixty days or less, enter into a matching forward commitment with the same or a different counterparty which entitles the Company to sell (in instances where the original transaction was a commitment to purchase) or purchase (in instances where the original transaction was a commitment to sell) the same or similar securities on or about the same specified date as the original forward commitment. Any difference between the specified price of the original and matching forward commitments will result in a gain or loss to the Company. Changes in the fair value of open commitments are recognized on the

consolidated statement of financial condition and included in other assets (if there is an unrealized gain) or in other liabilities (if there is an unrealized

loss). A corresponding amount is included as a component of net gain or loss on securities held-for-trading in the consolidated statement of operations.

The Company is exposed to interest rate risk on these commitments, as well as to credit loss in the event of nonperformance by any other party to the Company's forward commitments. However, the Company does not anticipate nonperformance by any counterparty.

Financial Futures Contracts - Trading

As part of its short-term trading strategies, the Company may enter into financial futures contracts, which are agreements between two parties to buy or sell a financial instrument for a set price on a future date. Initial margin deposits are made upon entering into futures contracts and can be either cash or securities. During the period that the futures contract is open, changes in the value of the contract are recognized as gains or losses on securities held-for-trading by "marking-to-market" on a daily basis to reflect the estimated fair value of the contract at the end of each day's trading. Variation margin payments are received or made, depending upon whether gains or losses are incurred.

Securitizations

When the Company sells assets in securitizations, it can retain certain tranches which are considered retained interests in the securitization. Gain or loss on the sale of assets depends in part on the previous carrying amount of the financial assets securitized, allocated between the assets sold and the retained interests based on their relative fair value at the date of securitization. To obtain fair values, quoted market prices are used. Gain or loss on securitizations of financial assets is reported as a component of sale of securities available-for-sale on the consolidated statement of operations. Retained interests are carried at estimated fair value on the consolidated statement of financial condition. Adjustments to estimated fair value for retained interests classified as securities available-for-sale are included in accumulated other comprehensive income on the consolidated statement of financial condition.

Commercial Mortgage Loans and Loan Pools

The Company purchases and originates certain commercial mortgage loans to be held as long-term investments. In accordance with SFAS No. 65, Accounting for Certain Mortgage Banking Activities, commercial mortgage loans and loan pools are classified as long term investments because the Company has the ability and the intent to hold these loans to maturity. Loans are recorded at cost at the date of purchase. Premiums and discounts related to these loans are amortized over their estimated lives using the effective interest method. Any origination fee income and application fee income, net of direct costs, associated with originating or purchasing commercial mortgage loans are deferred and included in the basis of the loans on the consolidated statements of financial condition. The net fees are amortized over the life of the loans using the effective interest method. The Company recognizes impairment on the loans when it is probable that the Company will not be able to collect all amounts due according to the contractual terms of the loan agreement. The Company measures impairment (both interest and principal) based on the present value of expected future cash flows discounted at the loan's effective interest rate or the fair

value of the collateral if the loan is collateral dependent.

Equity Investments and Real Estate Joint Ventures

For those investments in real estate entities where the Company does not control the investee, or is not the primary beneficiary of a VIE, but can exert significant influence over the financial and operating policies of the investee, the Company uses the equity method of accounting. The Company recognizes its share of each investee's income or loss, and reduces its investment balance by distributions received. The Company owns an equity method investment in a privately held REIT that maintains its financial records on a fair value basis. The Company has retained such accounting relative to its investment in this REIT pursuant to EITF Issue 85-12, Retention of Specialized Accounting for Investments in Consolidation.

Derivative Instruments

As part of its asset/liability risk management activities, the Company may enter into interest rate swap agreements, forward currency exchange contracts and other financial instruments in order to hedge interest rate and foreign currency exposures or to modify the interest rate or foreign currency characteristics of related items in its consolidated statement of financial condition.

Income and expense from interest rate swap agreements that are, for accounting purposes, designated as cash flow hedges are recognized as a net adjustment to the interest expense of the hedged item and changes in fair value are recognized as a component of accumulated other comprehensive income in stockholders' equity. The estimated fair value of all swaps is included in other assets (if there is an unrealized gain) or in other liabilities (if there is an unrealized loss). Changes in fair value are included as a component of accumulated other comprehensive income in stockholders' equity, to the extent effective, and are collateralized with cash or cash equivalents and recorded in the consolidated statements of financial condition as restricted cash. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings. If the underlying hedged securities are sold, the amount of unrealized gain or loss in accumulated other comprehensive income relating to the corresponding interest rate swap agreement is included in the determination of gain or loss on the sale of the securities. If interest rate swap agreements are terminated, the associated gain or loss is deferred and amortized over the shorter of the remaining term of the original swap agreement, or the underlying hedged item, provided that the underlying hedged item has not been sold.

Income and expense from interest rate swap agreements that are, for accounting purposes, designated as trading derivatives are recognized as a net adjustment to securities held-for-trading in other gain (loss) on the accompanying consolidated statement of operations. During the term of the interest rate swap agreement, changes in fair value are recognized in the consolidated statements of operations and included in other assets (if there is an unrealized gain) or in other liabilities (if there is an unrealized loss). Changes in fair value are collateralized with cash or cash equivalents and are recorded in the consolidated statements of financial condition as restricted cash. A corresponding amount is included as loss on securities held for trading in the consolidated statement of operations.

Gains and losses from forward currency exchange contracts are recognized as a net adjustment to foreign currency gain or loss in the consolidated statement

of operations. During the term of the forward currency exchange contracts, changes in fair value are recognized in the consolidated statement of financial condition and included in other assets (if there is an unrealized gain) or in other liabilities (if there is an unrealized loss). A corresponding amount is included as a component of net foreign currency gain or loss in the consolidated statement of operations.

The Company monitors its hedging instruments throughout their terms to ensure that they remain effective for their intended purpose. The Company is exposed to interest rate and/or currency risk on these hedging instruments, as well as to credit loss in the event of nonperformance by any other party to the Company's hedging instruments. The Company's policy is to enter into hedging agreements with counterparties rated A or better.

Stock-Based Compensation

Effective January 1, 2003, the Company adopted the fair value recognition provisions of SFAS No. 123 (R), Accounting for Stock-Based Compensation, prospectively to all employee awards granted, modified, or settled after January 1, 2003. All awards under the Company's stock-based compensation plans were fully vested at January 1, 2003. Therefore, the cost related to stock-based employee compensation included in the determination of net income for the years ended December 31, 2005, 2004 and 2003 is the same as that which would have been recognized if the fair value based method had been applied to all awards since the original effective date of SFAS No. 123 (R).

Income Taxes

The Company has elected to be taxed as a REIT and to comply with the provisions of the Code with respect thereto. Accordingly, the Company generally will not be subject to Federal income tax to the extent of its distributions to stockholders and as long as certain asset, income and stock ownership tests are met. At December 31, 2005, the Company had a Federal capital loss carryover of approximately $60,500 available to offset future capital gains.

Recent Accounting Pronouncements

Accounting Changes and Corrections

In June 2005, the FASB issued SFAS No. 154. SFAS No. 154 replaces APB Opinion No. 20, Accounting Changes, and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements. SFAS No. 154 requires that a voluntary change in accounting principle be applied retrospectively with all prior period financial statements presented in accordance with the new accounting principle. SFAS No. 154 also requires that a change in the method of depreciating or amortizing a long-lived non-financial asset be accounted for prospectively as a change in estimate, and correction of errors in previously issued financial statements should be termed "restatements." SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The implementation of SFAS No. 154 is not expected to have a significant impact on the Company's consolidated financial statements.

Variable Interest Entities

In March 2005, the FASB issued FSP FIN 46(R)-5, Implicit Variable Interests under FIN 46. FSP FIN 46(R)-5 states that a reporting entity should consider whether it holds an implicit variable interest in a VIE or in a potential VIE. If the aggregate of the explicit and implicit variable interests held by the

reporting entity and its related parties would, if held by a single party, identify that party as the primary beneficiary, the party within the group most closely associated with the VIE should be deemed the primary beneficiary. The effective date of FSP FIN 46(R)-5 was the first reporting period beginning after March 31, 2005. The adoption of FSP FIN 46(R)-5 did not have an impact on the Company's consolidated financial statements.

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Share Based Payment

In December 2004, the FASB issued SFAS No. 123R, Share-Based Payment. This statement is a revision to SFAS No. 123, Accounting for Stock-Based Compensation, and superseded Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees. This statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, primarily focusing on the accounting for transactions in which an entity obtains employee services in share-based payment transactions. Entities will be required to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service (usually the vesting period) in exchange for the award. The grant-date fair value of employee share options and similar instruments will be estimated using option-pricing models. If an equity award is modified after the grant date, incremental compensation cost will be recognized in an amount equal to the excess of the fair value of the modified award over the fair value of the original award immediately before the modification. As amended by Rule 4-01(a) of Regulation S-X promulgated by the SEC, this statement is effective as of the beginning of the first interim or annual reporting period of the Company's first fiscal year beginning on or after December 15, 2005. The Company adopted SFAS No. 123R, as amended, effective January 1, 2006 with no impact to the consolidated financial statements as there are no unvested options as of December 31, 2005 and the Company applied the fair value method to all options issued after January 1, 2003.

Other-Than-Temporary-Impairments

In March 2004, the EITF reached a consensus on EITF No. 03-1. The EITF reached a consensus on an other-than-temporary impairment model for debt and equity securities accounted for under SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, and cost method investments. In September 2004, the FASB issued FSP EITF No. 03-1-1, Effective Date of Paragraphs 10-20 of EITF Issue No. 03-1. This FSP delayed the effective date of the measurement and recognition guidance contained in paragraphs 10-20 of EITF No. 03-1. In November 2005, the FASB issued FSP FAS 115-1 and FAS 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments. This FSP nullifies certain requirements of EITF No. 03-1 and supersedes EITF Abstracts, Topic No. D-44, Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value. Based on the clarification provided in FSP FAS 115-1 and FAS 124-1, the amount of any other-than-temporary impairment that needs to be recognized will continue to be dependent on market conditions, the occurrence of certain events or changes in circumstances relative to an investee and an entity's intent and ability to hold the impaired investment at the time of the valuation. FSP FAS 115-1 and FAS 124-1 is effective for reporting periods beginning after December 15, 2005. Adoption of this FSP does not have a material effect on the Company's consolidated financial statements.

Reverse Repurchase Agreements

The Company understands that the FASB is considering placing an item on its agenda relating to the treatment of transactions where mortgage-backed securities purchased from a particular counterparty are financed via a repurchase agreement with the same counterparty. Currently, the Company records such assets and the related financing gross on the consolidated statement of financial condition, and the corresponding interest income and interest expense gross on the consolidated statement of operations. Any change in fair value of the security is reported through other comprehensive income under SFAS No. 115, because the security is classified as available-for-sale. However, in a transaction where the mortgage-backed securities are acquired from and financed under a repurchase agreement with the same counterparty, the acquisition may not qualify as a sale from the seller's perspective under the provisions of SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. In such cases, the seller may be required to

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continue to consolidate the assets sold to the Company, based on their continuing involvement with such investments. Depending on the ultimate outcome of the FASB deliberations, the Company may be precluded from presenting the assets gross on our balance sheet and should instead be treating our net investment in such assets as a derivative. If it is determined that these transactions should be treated as investments in derivatives, the derivative instruments entered into by the Company to hedge the Company's interest rate exposure with respect to the borrowings under the associated repurchase agreements may no longer qualify for hedge accounting, and would then, as with the underlying asset transactions, also be marked to market through the income statement. This potential change in accounting treatment does not affect the economics of the transactions but does affect how the transactions would be reported in the consolidated financial statements. The Company's cash flows, liquidity and ability to pay a dividend would be unchanged, and we do not believe our REIT taxable income or REIT status would be affected. The Company's net equity would not be materially affected. At December 31, 2005, the Company has identified available-for-sale securities with a fair value of $59,292 which had been purchased from and financed with the same counterparty since their purchase. If the Company were to change the current accounting treatment for these transactions at December 31, 2005, total assets and total liabilities would each be reduced by approximately $59,292.

Reclassifications

Certain items previously reported have been reclassified to conform to the current year's presentation.

Note 2 SECURITIES AVAILABLE-FOR-SALE

The Company's securities available-for-sale are carried at estimated fair value. The amortized cost and estimated fair value of securities available-for-sale at December 31, 2005 are summarized as follows:

Security Description	Amortized Cost	Gross Unrealized Gain
CMBS:		

CMBS IOs	$103,120	$1,784
Investment grade CMBS	495,555	24,757
Non-investment grade rated subordinated securities	625,132	55,693
Non-rated subordinated securities	24,436	2,303
Credit tenant leases	24,995	526
Investment grade REIT debt	249,412	8,887
Multifamily agency securities	268,319	490
CDO investments	112,571	12,155
Total CMBS	1,903,546	106,595
RMBS:		
Agency adjustable rate securities	77,629	-
Residential CMOs	667	58
Hybrid ARMs	16,012	-
Total RMBS	94,308	58
Total securities available-for-sale	$1,997,854	$106,653

At December 31, 2005, an aggregate of $1,940,734 in estimated fair value of the Company's securities available-for-sale was pledged to secure its collateralized borrowings.

The amortized cost and estimated fair value of securities available-for-sale at December 31, 2004 are summarized as follows:

Security Description	Amortized Cost	Gross Unrealized Gain	G Unr
CMBS:			
CMBS IOs	$122,379	$4,304	
Investment grade CMBS	380,673	14,302	
Non-investment grade rated subordinated securities	714,539	49,022	
Non-rated subordinated securities	4,996	998	
Credit tenant leases	25,517	448	
Investment grade REIT debt	271,344	15,456	
Project loans	24,092	-	
CDO investments	19,450	387	
Total CMBS	1,562,990	84,917	
RMBS:			

Agency adjustable rate securities	112,010	318	
Residential CMOs	1,342	66	
Hybrid ARMs	25,934	-	
Total RMBS	139,286	384	
Total securities available-for-sale	$1,698,140	$84,857	$

At December 31, 2004, an aggregate of $1,695,097 in estimated fair value of the Company's securities available-for-sale was pledged to secure its collateralized borrowings.

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At December 31, 2005 and 2004, the aggregate estimated fair values by underlying credit rating of the Company's securities available-for-sale are as follows:

	December 31, 2005		December 31, 2004	
Security Rating	Estimated Fair Value	Percentage	Estimated Fair Value	Percentage
Agency and agency insured securities	$359,044	17%	$159,892	9%
AAA	192,482	9	222,203	13
AA-	2,580	-	1,886	-
A+	11,612	1	9,155	1
A	26,725	1	22,283	1
A-	57,733	3	23,354	1
BBB+	145,066	7	119,214	7
BBB	209,763	10	217,968	12
BBB-	228,406	11	195,050	11
BB+	287,308	14	372,347	21
BB	173,110	8	124,140	7
BB-	97,883	5	100,831	6
B+	56,934	3	40,660	2
B	126,711	6	106,571	6
B-	16,884	1	4,478	1
CCC	-	-	4,360	-
Not rated	84,695	4	43,281	2
Total securities available-for-sale	$2,076,936	100%	$1,767,673	100%

The following table shows the Company's fair value and gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2005.

Less than 12 Months	12 Months or More

	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)	F V
CMBS IOs	$35,719	$(1,012)	$11,506	$(529)	$47
Investment grade CMBS	107,478	(2,950)	118,941	(7,527)	226
Investment grade REIT debt	19,757	(244)	58,830	(2,288)	78
Non-investment grade rated subordinated securities	99,207	(2,941)	22,269	(1,889)	121
Non-rated subordinated securities	9,233	(328)	-	-	9
Credit tenant leases	-	-	15,923	(684)	15
Multifamily agency securities	181,072	(5,084)	22,320	(363)	203
CDO investments	3,391	(183)	-		3
Agency adjustable rate securities	76,491	(1,138)	-	-	76
Hybrid ARMS	-	-	15,601	(411)	15
Total temporarily impaired securities	$532,348	$(13,880)	$265,390	$(13,691)	$797

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The following table shows the Company's fair value and gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2004.

	Less than 12 Months		12 Months or More		
	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized Losses	
CMBS IOs	$19,120	$(1,117)	$2,061	$(320)	$
Investment grade CMBS	52,754	(654)	98,952	(4,508)	1
Investment grade REIT debt	35,290	(311)	37,794	(1,147)	
Non-investment grade rated subordinated securities	37,098	(604)	60,548	(9,570)	
Credit tenant leases	-	-	16,168	(714)	
Multifamily agency securities	22,367	(340)	1,282	(102)	
Agency adjustable rate securities	11,692	(189)	-	-	
ARMs	25,606	(328)	-	-	
Total temporarily impaired securities	$203,927	$(3,543)	$216,805	$(16,361)	$4

The temporary impairment of the available-for-sale securities results from the fair value of the securities falling below the amortized cost basis. These unrealized losses are primarily the result of market factors other than credit impairment and the Company believes the carrying value of the securities are

fully recoverable over their expected holding period. Management possesses both the intent and the ability to hold the securities until the Company has recovered the amortized cost. As such, management does not believe any of the securities are other than temporarily impaired.

The CMBS held by the Company consist of subordinated securities collateralized by adjustable and fixed rate commercial and multifamily mortgage loans. The CMBS provide credit support to the more senior classes of the related commercial securitization. The Company generally does not own the senior classes of its below investment grade CMBS. Cash flow from the mortgages underlying the CMBS generally is allocated first to the senior classes, with the most senior class having a priority entitlement to cash flow. Then, any remaining cash flow is allocated generally among the other CMBS classes in order of their relative seniority. To the extent there are defaults and unrecoverable losses on the underlying mortgages, resulting in reduced cash flows, the most subordinated CMBS class will bear this loss first. To the extent there are losses in excess of the most subordinated class' stated entitlement to principal and interest, the remaining CMBS classes will bear such losses in order of their relative subordination.

At December 31, 2005 and 2004, the anticipated weighted average unleveraged yield based upon the adjusted cost of the Company's entire subordinated CMBS portfolio was 10.2% and 10.4% per annum, respectively, and of the Company's other securities available-for-sale was 5.8% and 5.8% per annum, respectively. The Company's anticipated yields to maturity on its subordinated CMBS and other securities available-for-sale are based upon a number of assumptions that are subject to certain business and economic uncertainties and contingencies. Examples of these include, among other things, the rate and timing of principal payments (including prepayments, repurchases, defaults, liquidations, and related expenses), the pass-through or coupon rate, and interest rate fluctuations. Additional factors that may affect the Company's anticipated yields to maturity on its Controlling Class CMBS include interest payment shortfalls due to delinquencies on the underlying mortgage loans, and the timing and magnitude of credit losses on the mortgage loans underlying the Controlling Class CMBS that are a result of the general condition of the real estate market (including competition for tenants and their related credit quality), and changes in market rental rates. As these uncertainties and contingencies are difficult to predict and are subject to future events that

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may alter these assumptions, no assurance can be given that the anticipated yields to maturity, discussed above and elsewhere, will be achieved.

The RMBS held by the Company consist of adjustable rate and fixed rate residential pass-through or mortgage-backed securities collateralized by adjustable and fixed rate single-family residential mortgage loans. Agency RMBS were issued by FHLMC, FNMA or GNMA. Privately issued RMBS were issued by entities other than FHLMC, FNMA or GNMA. The Company's securities available-for-sale are subject to credit, interest rate, and/or prepayment risks. The agency adjustable rate RMBS held by the Company is subject to periodic and lifetime caps that limit the amount the interest rates of such securities can change during any given period and over the life of the loan. At December 31, 2005 and 2004, adjustable rate RMBS with an estimated fair value of $92,817 and $139,513, respectively, is included in securities available-for-sale on the consolidated statements of financial condition.

During 2005, the Company sold securities available-for-sale for total proceeds of $264,999, resulting in a realized gain of $16,543. During 2004, the Company sold securities available-for-sale for total proceeds of $503,898, resulting in

a realized gain of $17,544. During 2003, the Company sold securities available-for-sale for total proceeds of $1,466,552, resulting in a realized loss of $6,832.

Note 3 IMPAIRMENTS - CMBS

In 2001, the Company adopted EITF 99-20. The Company updates its estimated cash flows for securities subject to EITF 99-20 on a quarterly basis. The Company compares the yields resulting from the updated cash flows to the current accrual yields. An impairment charge is required under EITF 99-20 if the updated yield is lower than the current accrual yield and the security has an estimated fair value less than its adjusted purchase price. The Company carries all these securities at their estimated fair value on its consolidated statement of financial condition.

2005

During 2005, the Company had six CMBS that required impairment charges of $5,088. For one below investment grade CMBS, the Company increased its underlying loan loss expectations on a 1998 vintage CMBS transaction resulting in a charge of $3,072. This CMBS transaction has two underlying mortgage loans secured by assisted living facilities located in Texas that were performing below management's original expectations. The two underlying mortgage loans were resolved in the fourth quarter of 2005 with lower than expected loss severities. The effect of the improved loss severity will be recognized over the remaining life of the security in the form of an increased yield. For the remaining five securities, changes in the timing of credit losses and prepayments caused yields to decline.

2004

During 2004, six 1998 vintage CMBS securities in four separate CMBS transactions required impairment charges of $26,018. A variety of factors influenced updated yields for these securities including magnitude of credit loss, timing of credit loss, prepayments and servicer advances. The Company completed a re-evaluation of credit assumptions of its 1998 vintage CMBS portfolio in the fourth quarter of 2004. The magnitude of credit losses did not significantly change as a result of this process, as total loss expectations on the underlying loans moved from 2.06% to 2.04%. Changes in the timing of credit losses and prepayments caused updated yields on these securities to decline by a weighted average of 66 basis points. Market dislocations in 1998 caused disproportionate unrealized losses in the estimated fair value of these securities based on price quotes received from third parties. The Company had

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recorded these unrealized losses as other comprehensive loss on its consolidated statement of financial condition since that time. In addition, the Company increased underlying loan loss expectations on one non-rated security resulting in an impairment charge of $663.

2003

During 2003, the Company increased underlying loan loss expectations on five CMBS securities. As a result of the increase in loss expectations, the Company recorded an impairment charge of $32,426 during 2003.

Note 4 SECURITIZATION TRANSACTIONS

During 2005, the Company closed CDO HY2 and issued non-recourse liabilities with a face amount of $365,010. Senior investment grade notes with a face amount of $240,134 were issued and sold in a private placement. The Company retained the floating rate BBB- note, the below investment grade notes and the preferred shares. The Company recorded CDO HY2 as a secured financing for accounting purposes and consolidated the assets, liabilities, income and expenses of CDO HY2 until the sale of the floating rate BBB- note in the fourth quarter of 2005, at which point CDO HY2 qualified as a sale under SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. In exchange for a portfolio of CMBS and investment grade REIT debt with an estimated fair value of $323,103, the Company received cash proceeds of $244,212 as well as all of the retained interests that had an estimated fair value of $105,025 at December 31, 2005. The total gain from CDO HY2 of $16,523 is included in sale of securities available-for-sale on the consolidated statement of operations.

During 2004, the Company sold non-investment grade CMBS with an estimated fair value of $109,933 to a qualifying special purpose entity ("CDO HY1"). These CMBS were securitized into various classes of non-recourse bonds and preferred equity. CDO HY1 sold the investment grade rated bonds to unrelated third parties for net proceeds of $121,547. In accordance with SFAS No. 140, a gain of $14,769 was recognized on the sale of the CMBS collateral to CDO HY1. At closing, the Company retained the A- rated bond and the preferred equity in CDO HY1. Subsequently, the A- rated bond was sold at a gain of $1,825 during the fourth quarter of 2004.

The table below summarizes the cash flows received from securitizations during the year ended December 31, 2005 and 2004, respectively.

	2005	2004
Proceeds from securitizations	$235,197	$121,547
Sale of retained interest	$9,015	$18,879
Cash flow on retained interests	$11,347	$0(1)

(1) For 2004, the retained interest's first scheduled quarterly payment was in January 2005.

Key economic assumptions used in measuring the fair value of the retained interest at the date of the securitization was as follows:

Preferred Equity

	2005	2004
Weighted average life	18.2 years	11.5 years
Preferred equity discount rate	4.93%	67.4%

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Subordinated Debt

	2005	2004
Weighted average life	9.9 years	n/a
Subordinated discount rate	12.1%	n/a

When subsequently measuring the fair value of the preferred equity, the Company applies certain loss assumptions to after-loss cash flows. The Company estimated credit losses and the timing of losses for each loan underlying the

CMBS collateral, and accordingly does not apply a constant default rate to the portfolio. At December 31, 2005 and 2004, respectively, the amortized costs of the retained interests were $119,003 and $15,851, with an estimated fair value of $121,159 and $15,885, based on key economic assumptions. The sensitivity of the retained interest to immediate adverse changes in those assumptions follows:

	2005	2004
Reduction of income per share:		
50% adverse change in credit losses	$0.09	$0.02
100% adverse change in credit losses	$0.18	$0.04
Impairment per share:		
50% adverse change in credit losses	$0.03	$0.04
100% adverse change in credit losses	$0.03	$0.07

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a variation in key assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. This non-linear relationship exists because we apply our key assumptions on a loan-by-loan basis to the assets underlying the CMBS collateral. Also, in this table, the effect of a variation in a particular assumption on the fair value of the retained interest was calculated without changing any other assumption; in reality, changes in one factor may result in changes to another, which might magnify or counteract the sensitivities. The Company reviews all major assumptions periodically using the most recent empirical and market data available, and makes adjustments where warranted.

Note 5 COMMERCIAL MORTGAGE LOAN POOLS

During the second quarter of 2004, the Company acquired subordinated CMBS in a trust establishing a Controlling Class interest. The Company negotiated for and obtained a greater degree of influence over the disposition of the commercial mortgage loans than is typically granted to the special servicer. As a result of this expanded influence, the trust was not a QSPE and FIN 46R required the Company to consolidate the net assets and results of operations of the trust.

Approximately 45% of the par amount of the commercial mortgage loan pool is comprised of investment grade loans and the remaining 55% are unrated. For income recognition purposes, the Company considers the investment grade and unrated commercial mortgage loans in the pool as single assets reflecting the credit assumptions made in establishing loss adjusted yields for Controlling Class securities. The Company has taken into account the credit quality of the underlying loans in formulating its loss assumptions. Credit losses assumed on the entire pool are 1.40% of the principal balance, or 2.53% of the unrated principal balance.

Over the life of the commercial mortgage loan pools, the Company reviews and updates its loss assumptions to determine the impact on expected cash flows to be collected. A decrease in estimated cash flows will reduce the amount of interest income recognized in future periods and may result in a loan loss

reserve depending upon the severity of the cash flow reductions. An increase in estimated cash flows will first reduce the loan loss reserve and any additional cash will increase the amount of interest income recorded in future periods.

Note 6 SECURITIES HELD-FOR-TRADING

The Company's securities held-for-trading are carried at estimated fair value. At December 31, 2005, the Company's securities held-for-trading consisted of FNMA Mortgage Pools with an estimated fair value of $166,209 and CMBS with an estimated fair value of $21,264. At December 31, 2004, the Company's securities held-for-trading consisted of FNMA and FHLMC mortgage pools with an estimated fair value of $232,918. The FNMA Mortgage Pools, and the underlying mortgages, bear interest at fixed rates for specified periods, generally three to seven years, after which the rates are periodically reset to market.

Note 7 COMMERCIAL MORTGAGE LOANS

The following table summarizes the Company's loan investments at December 31, 2005 and 2004:

Date of Initial Investment	Scheduled Maturity	Property Location	Property Type	Par		Book Value	
				2005	2004	2005	20
11/7/01	11/11/07	San Francisco, CA (2)	Office	$10,618	$10,724	$10,245	$1
11/7/01	11/11/07	San Francisco, CA (2)	Office	9,556	9,651	9,422	
5/17/02	12/11/05	Southwest United States (3)	Residential	-	2,479	-	
6/30/03	6/1/10	United States -Multiple(1)(4)	Hotel	14,437	14,678	11,943	1
10/28/03	03/09/05	New York, NY (5)	Office	-	7,000	-	
03/31/04	01/01/11	Pittsburgh, PA (1)(6)	Office	19,595	19,814	19,593	1
04/07/04	12/11/18	Smyma, GA	Retail	192	192	192	
04/20/04	08/05/18	United States -Multiple(1)(7)	Retail	16,925	17,124	15,285	1
07/14/04	12/27/05	New York, NY	Office	-	22,425	-	2
08/03/04	06/30/06	United Kingdom(9)	Office	18,502	21,119	18,502	2
8/26/04	8/9/06	United States- Multiple(1)(10)(11)	Hotel	25,000	25,000	25,000	2
09/15/04	09/09/05	United States- Multiple (1)(11)(12)	Hotel	-	30,000	-	3
09/29/04	05/11/08	San Francisco, CA(1)	Residential	9,980	9,980	9,980	
09/29/04	03/11/09	San Francisco, CA	Residential	3,500	3,500	3,500	
09/30/04	10/09/05	West Palm Beach, FL(1)(13)	Retail	6,020	10,000	5,979	1
10/19/04	07/12/06	Henderson, NV(1)(14)	Hotel	10,000	10,000	10,000	1
10/28/04	12/09/05	San Diego, CA(1)	Hotel	-	25,000	-	2
10/28/04	11/09/05	Portland, Me(1)(11)(15)	Retail	-	34,000	-	3
06/15/05	03/15/10	Germany(16)	Residential	25,794	-	25,794	
08/01/05	05/26/07	United States- Multiple(17)	Communication Tower	20,000	-	20,000	
09/28/05	09/11/07	Multiple(11)(18)	Hotel	20,938	-	20,938	
10/05/05	08/01/15	United States- Multiple(19)	Storage	32,913	-	32,913	
10/21/05	1/20/10	United Kingdom(20)	Various	38,453	-	38,453	
11/15/05	04/11/15	Sunnyvale, CA(21)	Office	29,000	-	25,865	
11/03/05	05/01/15	Albany, NY(22)	Residential	15,000	-	15,000	
12/07/05	10/20/12	Germany(8)	Retail	47,202	-	47,202	

Totals	$373,625	$272,686	$365,806	$26

F - Fixed Rate; L - LIBOR-based floating rate

(1) The entire principal balance of the Company's investment is pledged to secure line of credit borrowing agreements.

(2) Two subordinate interests in a $125,000 note secured by one 11-story office building. The entire principal balance of the Company's investment is pledged to secure collateralized debt obligations.

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(3) Represents a 1.46% interest only strip off of a B Note secured by a portfolio of apartments (5,389 units). Payments received are the greater of 1.5% or 9.5% less LIBOR+450, based upon a notional par value.

(4) Represents a subordinate position in a $125,000 first mortgage, secured by six hotels in California and one hotel in Michigan.

(5) Represents a subordinate interest in a $26,000 mezzanine loan, secured by partnership interests in a 54 story, landmark office building.

(6) Represents a junior participation in a $59,000 mezzanine note. The mezzanine note is secured by 100% of the partnership interests in the entity that owns a 1.5 million square foot office complex, known as PPG Place.

(7) Represents a junior participation in an $115,000 first mortgage loan secured by three regional malls. The properties are located in Bowling Green, Kentucky, Springfield, Oregon, and Jefferson City, Missouri.

(8) Represents a (euro)40,000 pari-passu interest in a C Note of a (euro)672,000 loan to finance the acquisition of a portfolio of 268 retail outlets and five office/logistics properties in Germany.

(9) Represents a subordinate interest in a first mortgage on a portfolio of seven office buildings located in London and Edinburgh and Aberdeen, Scotland. The loan may be extended at the borrower's options for an additional three-year term.

(10) Represents a junior mezzanine loan, secured by the borrower's pledge of its ownership interests in a portfolio of nine Embassy Suites hotels consisting of 2,150 rooms, located in six states and seven metropolitan areas.

(11) May be extended at the borrower's option for three additional twelve-month periods, subject to certain performance hurdles.

(12) Represents a pari-passu participation in a $100,000 senior mezzanine loan, secured by the pledge of the equity in seven luxury, business, and group oriented hotel properties located in New York (2), Northern California (3), and Southern California (2). The portfolio totals 3,451 rooms.

(13) Represents a mezzanine loan, secured by a pledge of 100% of the equity interests in the owner of the Palladium at CityPlace, a 626 square foot open-air entertainment/retail center with 110 residential/commercial units

in the downtown area of West Palm Beach, Florida. The loan is also collateralized by two additional parcels it the CityPlace development.

(14) May be extended at the borrower's option for three additional twelve-month periods, subject to certain performance hurdles and an extension fee for the second and third extension.

(15) Represents a $34,000 mezzanine loan, secured by a pledge in the ownership interests in the owners of The Maine Mall, a four-anchor super-regional mall located in South Portland, Maine. The total mall size is approximately 1,005 square feet, of which 759 square feet is collateral for the loan.

(16) Represents a pari-passu interest in a (euro)40,000 B-Note on a portfolio consisting primarily of residential, commercial, and parking buildings located in Germany.

(17) Represents a $20,000 subordinate position interest in Morgan Stanley's pari-passu interest in a $850,000 bridge loan provided to finance the acquisition of a portfolio of 6,573 communication towers from Sprint. May be extended at the borrowers's option for two additional six-month periods, subject to an extension fee and certain performance hurdles. This loan was repaid in February of 2006.

(18) Represents a junior participation interest in a $330,000 mezzanine loan, secured by a portfolio of 29 full-service hotel and resort properties with 11,076 rooms and one related retail property located in twelve states, the District of Columbia, Puerto Rico, Jamaica, and Canada.

(19) Represents a $33,000 ten-year fixed rate mezzanine loan originated as part of a $264,000 whole-loan on a pool of 60 self storage facilities located throughout the southern United States.

(20) The Deco B-Note Portfolio represents investment in a portfolio of subordinate interests in 20 loans secured by 38 properties in the UK.

(21) Represents a junior participation in a 139,000, ten-year, fixed rate first mortgage originated to fund the acquisition of Mathilda Research Centre, a Class A, three building, 424,824 square foot campus located in Silicon Valley in Sunnyvale, CA.

(22) Represents a subordinated interest in a $155,000 first mortgage, secured by a portfolio of 12 multifamily properties with 2,760 units in or around Albany, NY.

Reconciliation of commercial mortgage loans:	Par	Book Valu
Balance at January 1, 2004	$62,688	$ 57,
Adjustment for discount accretion and foreign currency	-	2,
Proceeds from repayment of mortgage loans	(23,285)	(23,
Reduction in notional par value	(316)	
Investments in commercial mortgage loans	233,599	226,

Balance at December 31, 2004	$272,686	$263,
Adjustment for discount accretion and foreign currency	-	(4,
Proceeds from repayment of mortgage loans	(112,830)	(112,
Principal receivable	(3,899)	(3,
Reduction in notional par value	(2,479)	
Sale of commercial mortgage loans	(22,425)	(20,
Investments in commercial mortgage loans	242,572	243,
Balance at December 31, 2005	$373,625	$365,

There were no loans subject to delinquent principal or interest at December 31, 2005 and 2004.

Note 8 EQUITY INVESTMENTS AND REAL ESTATE JOINT VENTURES

At December 31, 2005 and 2004, the Company owned approximately 20% of Carbon I. The Company also owned approximately 26% and 20% of Carbon II at December 31, 2005 and 2004, respectively. Collectively, the Carbon Capital Funds are private commercial real estate income opportunity funds managed by the Manager (see Note 13 of the consolidated financial statements).

The Company entered into a $50,000 commitment on July 20, 2001 to acquire shares in Carbon I. On July 12, 2004, the investment period expired. The Company's investment in Carbon I at December 31, 2005 and 2004 was $18,458 and $39,563, respectively.

The Company entered into an aggregate commitment of $100,000 to acquire shares in Carbon II. The Company's investment in Carbon II at December 31, 2005 and 2004 was $41,188 and $17,249, respectively. The Company's remaining commitment at December 31, 2005 was $61,742.

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The following table summarizes the loan investments held by the Carbon Capital Funds at December 31, 2005 and 2004.

		# of Loans		Par at		Book Value at			
Type of Investment	Underlying Property Type	2005	2004	2005	2004	2005	2004	Scheduled Maturity	In
Senior Mortgages	Office	1	-	$21,183	$-	$21,183	$-	2006	
Subordinate Mortgages	Residential/ Office/Hotel/ Retail/Land	14	16	260,936	256,686	257,668	245,154	2006 - 2012	6. 8.

Mezzanine Loans	Residential/ Office/Hotel/ Retail/ Storage	18	15	317,063	274,706	282,227	273,754	2006 - 2012	6. 8.
Total		33	31	$599,182	$531,392	$561,078	$518,908		

F - Fixed Rate; L - LIBOR-based floating rate

On December 13, 2005, the Company entered into a $75,000 commitment to acquire shares of BlackRock Diamond. At December 31, 2005, 67% of the commitment has been called and the Company owned approximately 27% of BlackRock Diamond. The Company's investment in BlackRock Diamond at December 31, 2005 was $51,004. During February 2006, the Company increased it capital commitments by an additional $25,000 and received an additional capital call of $24,296.

On December 22, 2005, the Company entered into an $11,000 commitment to acquire shares of Dynamic India Fund IV. On February 13, 2006, the Company received a notice, calling 16.5% of its commitment.

On July 20, 2000, the Company made an investment aggregating $5,121 in two limited partnerships for the purpose of purchasing a ninety-nine thousand square foot office building and a one hundred twenty thousand square foot office building, both of which are located in suburban Philadelphia. The Company exercised significant influence, but not control, and accounted for its investment under the equity method. The Company received a preferred return of 12% compounded on its unreturned capital, paid monthly. On June 30, 2004, the Company received the return of its capital and an additional 3% return representing its share of the proceeds from refinancing. The book value of the investment in the partnerships at December 31, 2003 was $2,750.

On December 14, 2000, the Company made an investment aggregating approximately $5,149 in a limited liability company for the purpose of acquiring a five hundred thousand square foot office and retail complex in Tallahassee, Florida. The Company exercises significant influence, but not control, and accounts for its investment under the equity method. The Company receives a preferred return of 13.25% and a return of capital of $3, which is payable monthly. The book value of the investment at December 31, 2004 and 2003 was $5,031 and $5,073, respectively. On January 13, 2005, the Company received the return of its remaining capital.

Combined summarized financial information of the unconsolidated equity investments and real estate joint ventures of the Company is as follows:

	December 31,	
	2005	

Combined Balance Sheets:

Real estate property	$273,432	
Commercial mortgage loans, net	561,078	
Other assets	101,947	
Total Assets	$936,457	
Mortgage debt	$46,801	
Other liabilities	461,582	
Partners', members' and stockholders' equity	428,074	
Total liabilities, partners', members', and stockholders' equity	$936,457	
The Company's share of equity	$110,650	

	For the years ended Decembe		
	2005	2004	
Combined Statements of Operations:			
Revenues	$82,973	$49,107	
Expenses			
Interest expense	21,834	7,731	
Depreciation and amortization	-	1,274	
Operating expenses	16,250	6,752	
Total expenses	38,084	15,757	
Net Income	$44,889	$33,350	
The Company's share of net income	$12,146	$8,157	

Note 9 BORROWINGS

The Company's borrowings consist of lines of credit, CDOs, trust preferred securities, reverse repurchase agreements, and commercial mortgage loan pools.

Reverse Repurchase Agreements and Lines of Credit

The Company has entered into reverse repurchase agreements to finance most of its securities available-for-sale that are not financed under its lines of credit or from the issuance of its CDOs. The reverse repurchase agreements bear interest at a LIBOR-based variable rate.

Under the lines of credit and the reverse repurchase agreements, the respective lender retains the right to mark the underlying collateral to estimated fair value. A reduction in the value of pledged assets would require the Company to provide additional collateral or fund margin calls. From time to time, the Company may be required to provide additional collateral or fund margin calls. At December 31, 2005, more than ten percent of the Company's net assets were held as collateral for reverse repurchase agreements with Citigroup Global Markets, Inc. and Lehman Brothers, Inc.

The Company has a $200,000 committed multicurrency credit facility with Deutsche Bank, AG (the "Deutsche Bank Facility") that matures December 20, 2007. The Deutsche Bank Facility can be used to replace existing reverse repurchase agreement borrowings and to finance the acquisition of mortgage-backed securities, loan investments and investments in real estate joint ventures. At December 31, 2005 and 2004, the outstanding borrowings under this facility were $181,875 and $126,349, respectively. Outstanding borrowings under the Deutsche Bank Facility bear interest at a LIBOR-based variable rate On July 18, 2002, the Company entered into a $75,000 committed credit facility with Greenwich Capital, Inc. The facility initially provided the Company with the ability to borrow only through July 17, 2004 with the repayment of principal not due until July 7, 2005. On such date, this facility was extended through July 7, 2006. Outstanding borrowings under this credit facility bear interest at a LIBOR-based variable rate. At December 31, 2005, outstanding borrowings under this facility were $75,000. At December 31, 2004, outstanding borrowings under this facility were $24,527.

At December 31, 2005, the Company had outstanding borrowings of $27,800 under a $28,000 committed credit facility with Morgan Stanley Mortgage Capital, Inc. The Morgan Stanley Mortgage Capital, Inc. facility matures May 11, 2006.

On February 17, 2006, the Company entered into a $200,000 committed multicurrency credit facility with Morgan Stanley Bank that matures on February 16, 2008. Extensions of credit under this facility will be secured by certain loans and securities. Outstanding borrowings under this credit facility bear interest at a LIBOR-based variable rate.

The Company is subject to various covenants in its lines of credit, including maintaining a minimum net worth measured on a GAAP book value of $305,000, a recourse debt-to-equity of 3.0 to 1, a minimum cash requirement based upon certain debt-to-equity ratios, a minimum debt service coverage ratio of 1.75 and a minimum liquidity reserve of $10,000. At December 31, 2004, the Company received authorization from its lenders to permit debt to equity and debt service coverage ratios in excess of existing covenants. At December 31, 2005 and 2004, the Company was in compliance with all other covenants.

CDOs

On May 29, 2002, the Company issued ten tranches of secured debt through CDO I. In this transaction, a wholly owned subsidiary of the Company issued debt in the par amount of $419,185 secured by the subsidiary's assets. The adjusted issue price of the CDO I debt, at December 31, 2005, is $406,208. Five tranches were issued at a fixed rate coupon and five tranches were issued at a floating rate coupon with a combined weighted average remaining maturity of 6.29 years at December 31, 2005. All floating rate coupons were swapped to fixed rate coupons resulting in a total fixed rate cost of funds for CDO I of approximately 7.21%. The Company incurred $9,890 of issuance costs that will be amortized over the weighted average life of CDO I. CDO I was structured to match fund the cash flows from a significant portion of the Company's CMBS and investment grade REIT debt. The par amount at December 31, 2005 of the collateral securing CDO I consists of 78% CMBS rated B or higher and 22% REIT

debt rated BBB or higher. At December 31, 2005, the collateral securing CDO I has a fair value of $490,745.

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On December 10, 2002, the Company issued seven tranches of secured debt through CDO II. In this transaction, a wholly owned subsidiary of the Company issued debt in the par amount of $280,783 secured by the subsidiary's assets. In July 2004, the Company sold a CDO II bond with a par of $12,850 that it had previously retained. Before the sale of this security, the Company amended the indenture to reduce the coupon from 9.0% to 7.6%. The adjusted issue price of the CDO II debt at December 31, 2005 is $292,807. Five tranches were issued at a fixed rate coupon and three tranches were issued at a floating rate coupon with a combined weighted average remaining maturity of 6.68 years at December 31, 2005. All floating rate coupons were swapped to fixed rate coupons resulting in a total fixed rate cost of funds for CDO II of approximately 5.79%. The Company incurred $6,004 of issuance costs that will be amortized over the weighted average life of CDO II. CDO II was structured to match fund the cash flows from a significant portion of the Company's CMBS and investment grade REIT debt. The par amount at December 31, 2004 of the collateral securing CDO II consists of 84% CMBS rated B or higher and 16% REIT debt rated BBB or higher. At December 31, 2005, the collateral securing CDO II has a fair value of $348,768.

On March 30, 2004, the Company issued eleven tranches of secured debt through CDO III. In this transaction, a wholly owned subsidiary of the Company issued secured debt in the par amount of $372,456 secured by the subsidiary's assets. The adjusted issue price of the CDO III debt, at December 31, 2005, is $367,915. Five tranches were issued at a fixed rate coupon and six tranches were issued at a floating rate coupon with a combined weighted average remaining maturity of 7.39 years at December 31, 2005. All floating rate coupons were swapped to fixed rate coupons resulting in a total fixed rate cost of funds for CDO III of approximately 5.03%. The Company incurred $2,006 of issuance costs that will be amortized over the weighted average life of CDO III. CDO III was structured to match fund the cash flows from a significant portion of the Company's CMBS and investment grade REIT. The par amount at December 31, 2005 of the collateral securing CDO III consists of 88% CMBS rated B or higher and 12% REIT debt rated BBB or higher. At December 31, 2005, the collateral securing CDO III has a fair value of $387,708.

Information with respect to the Company's collateralized borrowings at December 31, 2005 is summarized as follows:

	Reverse Repurchase Agreements	Lines of Credit and Term Loans	Commercial Mortgage Loan Pools	Collate De Oblig
Outstanding borrowings	$816,641	$284,675	$1,272,931	$1,066,
Weighted average borrowing rate	4.47%	5.27%	3.97%	5.
Weighted average remaining maturity	27 days	1.37 years	6.80 years	6.78 ye
Estimated fair value of assets pledged	$897,886	$415,501	$1,292,407	$1,227,

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At December 31, 2005, the Company's collateralized borrowings had the following remaining maturities:

	Reverse Repurchase Agreements	Lines of Credit	Commercial Mortgage Loan Pools	Collateralized Debt Obligations*
Within 30 days	$796,365	$-	$-	$
31 to 59 days	20,276	-	-	
60 days to less than 1 year	-	113,009	-	
1 year to 3 years	-	171,666	-	
3 years to 5 years	-	-	-	
Over 5 years	-	-	1,272,931	1,066,93
	$816,641	$284,675	$1,272,931	$1,066,93

* Comprised of $406,208 of CDO debt with a weighted average remaining maturity of 6.29 years at December 31, 2005 and $292,807 of CDO debt with a weighted average remaining maturity of 6.68 years at December 31, 2005, and $367,915 of CDO debt with a weighted average remaining maturity of 7.39 years at December 31, 2005.

Certain information with respect to the Company's collateralized borrowings at December 31, 2004 is summarized as follows:

	Reverse Repurchase Agreements	Lines of Credit and Term Loans	Commercial Mortgage Loan Pools	Collatera Debt Obligat
Outstanding borrowings	$640,675	$163,676	$1,294,058	$1,067,
Weighted average borrowing rate	2.47%	3.52%	3.76%	6.
Weighted average remaining maturity	26 days	218 days	7.09 years	8.04 ye
Estimated fair value of assets pledged	$701,913	$222,122	$1,312,045	$1,202,

At December 31, 2004, the Company's collateralized borrowings had the following remaining maturities:

	Reverse Repurchase Agreements	Lines of Credit	Commercial Mortgage Loan Pools	Collateralize Debt Obligation
Within 30 days	$605,944	$-	$-	$
31 to 59 days	7,925	-	-	
60 days to less than 1 year	26,806	150,876	-	
1 year to 3 years	-	12,800	-	
3 years to 5 years	-	-	-	
Over 5 years	-	-	1,294,058	1,067,96
	$640,675	$163,676	$1,294,058	$1,067,96

* Comprised of $405,377 of CDO debt with a weighted average remaining maturity of 7.29 years at December 31, 2004 and $293,168 of CDO debt with a weighted average remaining maturity of 7.72 years at December 31, 2004, and $369,422 of CDO debt with a weighted average remaining maturity of 8.39 years at December 31, 2004.

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Trust Preferred

On September 26, 2005, the Company issued $75,000 of trust preferred securities through its wholly owned subsidiary, Anthracite Capital Trust I, a Delaware statutory trust ("Trust I"). The trust preferred securities have a thirty-year term ending October 30, 2035 with interest at a fixed rate of 7.497% for the first ten years and at a floating rate of three-month LIBOR plus 2.9% thereafter. The trust preferred securities can be redeemed at par by the Company beginning in October 2010. Trust I issued $2,380 aggregate liquidation amount of common securities, representing 100% of the voting common stock of Trust I to the Company for a purchase price of $2,380. The Company realized net proceeds from this offering of approximately $72,618.

On February 2, 2006, the Company issued $50,000 of trust preferred securities through its wholly owned subsidiary, Anthracite Capital Trust II, a Delaware statutory trust ("Trust II"). The trust preferred securities have a thirty-year term ending April 30, 2036 with interest at a fixed rate of 7.73% for the first ten years and at a floating rate of three-month LIBOR plus 2.7% thereafter. The trust preferred securities can be redeemed at par by the Company beginning in April 2011. Trust II issued $1,550 aggregate liquidation amount of common securities, representing 100% of the voting common stock of Trust II to the Company for a purchase price of $1,550. The Company realized net proceeds from this offering of approximately $48,491.

On March 16, 2006, the Company issued $50,000 of trust preferred securities through its wholly owned subsidiary, Anthracite Capital Trust III, a Delaware statutory trust ("Trust III" and collectively with Trust I and Trust II, the "Trusts"). The trust preferred securities have a thirty-year term ending March 30, 2036 with interest at a fixed rate of 7.77% for the first ten years and at a floating rate of three-month LIBOR plus 2.7% thereafter. The trust preferred securities can be redeemed at par by the Company beginning in March 2011. Trust III issued $1,547 aggregate liquidation amount of common securities, representing 100% of the voting common stock of Trust III to the Company for a purchase price of $1,547. The Company realized net proceeds from this offering of approximately $48,435.

The Trusts used the proceeds from the sale of the trust preferred securities and the common securities to purchase the Company's junior subordinated notes. The terms of the junior subordinated notes match the terms of the trust preferred securities. The notes are subordinate and junior in right of payment to all present and future senior indebtedness and certain other of our financial obligations.

The Company's interests in the Trusts are accounted for using the equity method and the assets and liabilities of the Trusts are not consolidated into the Company's financial statements. Interest on the junior subordinated notes is included in interest expense on the consolidated income statements while the common securities are included as a component of other assets on the Company's consolidated statement of financial condition.

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Note 10 FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the notional amount, carrying value and estimated fair value of financial instruments at December 31, 2005 and 2004:

	2005			
	Notional Amount	Carrying Value	Estimated Fair Value	Notional Amount
Securities available-for-sale	$ -	$2,076,936	$2,076,936	$ -
Securities held-for-trading	-	187,473	187,473	-
Commercial mortgage loans	-	365,806	365,806	-
Secured borrowings	-	1,101,316	1,101,316	-
CDO borrowings	-	1,066,930	1,090,927	-
Commercial mortgage loan pool borrowings	-	1,272,931	1,272,931	-
Junior subordinated notes	-	77,380	77,380	-
Currency forward contracts	-	(55,390)	(55,390)	-
Interest rate swap agreements	1,558,398	20,845	20,845	1,410,165

Notional amounts are a unit of measure specified in a derivative instrument. The estimated fair values of the Company's securities available-for-sale, securities held-for-trading, currency forward contracts and interest rate swap agreements are based on market prices provided by certain dealers who make markets in these financial instruments. The estimated fair values reported reflect estimates and may not necessarily be indicative of the amounts the Company could realize in a current market exchange. Commercial mortgage loans and secured borrowings are floating rate instruments, and based on these terms, their carrying value approximates fair value.

Note 11 PREFERRED STOCK

The Series B Preferred Stock was redeemed on May 6, 2004. The consolidated statement of operations for 2004 includes a charge of $10,508 for the redemption of the Company's Series B Preferred Stock.

On May 29, 2003, the Company authorized and issued 2,300,000 shares of Series C Preferred Stock, including 300,000 shares of Series C Preferred Stock issued

pursuant to an option granted to the underwriters to cover over-allotments. The Series C Preferred Stock is perpetual, carries a 9.375% coupon and has a preference in liquidation of $57,500. The aggregate net proceeds to the Company (after deducting underwriting fees and expenses) were approximately $55,435.

At December 31, 2005, the Company has 94,394,003 authorized and un-issued shares of preferred stock.

Note 12 COMMON STOCK

On August 18, 2005, the Company completed a follow-on offering of 1,725,000 shares of its Common Stock, at a price of $11.59 per share, which included a 15% over-allotment option exercised by the underwriter. Net proceeds (after deducting underwriting fees and expenses) were $19,125.

On June 30, 2004, the Company completed a follow-on offering of 2,415,000 shares of its Common Stock, at a price of $11.50 per share, which included a 15% over-allotment option exercised by the underwriter. Net proceeds (after deducting underwriting fees and expenses) were $26,662.

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For the year ended December 31, 2005, the Company issued 1,318,568 shares of Common Stock under its Dividend Reinvestment Plan. Net proceeds to the Company were approximately $14,327. For the year ended December 31, 2004, the Company issued 1,084,619 shares of Common Stock under its Dividend Reinvestment Plan. Net proceeds to the Company were approximately $12,691. For the year ended December 31, 2003, the Company issued 1,955,919 shares of Common Stock under its Dividend Reinvestment Plan. Net proceeds to the Company were approximately $21,134. As of February 24, 2006, the Company suspended the Dividend Reinvestment Plan for all future investments dates.

For the year ended December 31, 2004 and 2003, respectively, the Company issued 294,400 and 45,000 shares of Common Stock under a sale agency agreement with Brinson Patrick Securities Corporation. Net proceeds to the Company were approximately $3,210 and $497, respectively.

During the year ended December 31, 2005, the Company declared dividends to stockholders totaling $61,168, or $1.12 per share, of which $45,394 was paid during the year and $15,774 was paid on February 1, 2006. During the year ended December 31, 2004, the Company declared dividends to stockholders totaling $58,208, or $1.12 per share, of which $43,287 was paid during the year and $14,920 was paid on February 1, 2005. During the year ended December 31, 2003, the Company declared dividends to stockholders totaling $61,088, or $1.26 per share, of which $47,238 was paid during the year and $13,850 was paid on February 2, 2004.

Note 13 TRANSACTIONS WITH AFFILIATES

The Company has a Management Agreement with the Manager, a majority owned indirect subsidiary of The PNC Financial Services Group, Inc. and the employer of certain directors and all of the officers of the Company, under which the Manager manages the Company's day-to-day operations, subject to the direction and oversight of the Company's Board of Directors. Pursuant to the Management Agreement, the Manager formulates investment strategies, arranges for the acquisition of assets, arranges for financing, monitors the performance of the Company's assets and provides certain other advisory and managerial services in connection with the operations of the Company. For performing these services,

the Company pays the Manager a base management fee equal to 2.0% of the quarterly average total stockholders' equity for the applicable quarter.

To provide an incentive the Manager is entitled to receive an incentive fee equal to 25% of the amount by which the rolling four-quarter GAAP net income before the incentive fee exceeds the greater of 8.5% or 400 basis points over the ten-year Treasury note multiplied by the adjusted per share issue price of the common stock ($11.38 per common share at December 31, 2005).

The Company's unaffiliated directors approved an extension of the Management Agreement to March 30, 2007 at the Board's February 2006 meeting. Additionally, pursuant to a resolution of the Company's Board of Directors adopted at the February 2006 meeting, up to 30% of the incentive fees earned in 2005 or after may be paid in shares of the Company's Common Stock subject to certain provisions. The Board of Directors also authorized the Company to seek shareholders' approval of a compensatory deferred stock plan.

The Company incurred $10,974, $8,956, and $9,411 in base management fees in accordance with the terms of the Management Agreement for the years ended December 31, 2005, 2004, and 2003, respectively. The Company incurred $4,290 in incentive fees in accordance with the terms of the Management Agreement for the year ended December 31, 2005. The Company did not incur any incentive fees for the years ended December 31, 2004 and 2003. In accordance with the provisions of the Management Agreement, the Company recorded reimbursements to the Manager of $350, $120, and $66 for certain expenses incurred on behalf of the Company

during 2005, 2004, and 2003, respectively, which are included in general and administrative expense on the accompanying statement of operations.

During the third quarter of 2003, the Manager voluntarily reduced its management fees by 20% from its calculated amount for the third and fourth quarter of 2003 and the first quarter of 2004. This revision resulted in $1,046 in savings to the Company during 2003 and $532 during 2004, respectively.

The Company has administration and investment accounting agreements with the Manager. Under the terms of the administration agreement, the Manager provides financial reporting, audit coordination and accounting oversight services to the Company. Under the terms of the investment accounting agreement, the Manager provides investment accounting services to the Company. For the years ended December 31, 2005, 2004, and 2003, the Company paid administration fees of $209, $174, and $173, respectively, which are included in general and administrative expense on the accompanying statement of operations. No payments were made each of the three years in the period ended December 31, 2005.

The special servicer on 18 of the Company's 22 Controlling Class trusts is Midland, a wholly owned indirect subsidiary of PNC Bank, and therefore an affiliate of the Manager. The Company's fees for Midland's services are at market rates.

On December 13, 2005, the Company entered into a $75,000 commitment to acquire shares of BlackRock Diamond. BlackRock Diamond is a private REIT managed by BlackRock Realty Advisors, Inc., a subsidiary of the Manager. At December 31, 2005, 67% of the commitment has been called and the Company owned approximately 27% of BlackRock Diamond. The Company does not incur any additional management or incentive fees to the Manager as a result of its investment in BlackRock Diamond. The Company's investment in BlackRock Diamond at December 31, 2005 was $51,004. During February 2006, the Company increased it capital commitments by an additional $25,000 and received an additional capital call of $24,296. The

Company's unaffiliated directors approved this transaction in September 2006.

During 2001, the Company entered into a $50,000 commitment to acquire shares in Carbon I, a private commercial real estate income opportunity fund managed by the Manager. The Carbon I investment period ended on July 12, 2004 and the Company's investment in Carbon I at December 31, 2005 was $18,458. The Company does not incur any additional management or incentive fees to the Manager as a result of its investment in Carbon I. On December 31, 2005, the Company owned approximately 20% of the outstanding shares in Carbon I. The Company's unaffiliated directors approved this transaction in July 2001.

The Company entered into an aggregate commitment of $100,000 to acquire shares in Carbon II, a private commercial real estate income opportunity fund managed by the Manager. At December 31, 2005, the Company's investment in Carbon II was $41,188 and the Company's remaining commitment to Carbon II is $61,742. The Company does not incur any additional management or incentive fees to the Manager as a result of its investment in Carbon II. The Company's unaffiliated directors approved this transaction in September 2004.

During 2000, the Company completed the acquisition of CORE Cap, Inc. At the time of the CORE Cap, Inc. acquisition, the Manager agreed to pay GMAC (CORE Cap, Inc.'s external advisor) $12,500 over a ten-year period ("Installment Payment") to purchase the right to manage the Core Cap, Inc. assets under the existing management contract ("GMAC Contract"). The GMAC Contract had to be terminated in order to allow the Company to complete the merger, as the Company's management agreement with the Manager did not provide for multiple managers. As a result the Manager offered to buy-out the GMAC Contract as the

Manager estimated it would receive incremental fees above and beyond the Installment Payment, and thus was willing to pay for, and separately negotiate, the termination of the GMAC Contract. Accordingly, the value of the Installment Payment was not considered in the Company's allocation of its purchase price to the net assets acquired in the acquisition of CORE Cap, Inc. The Company agreed that should the Management Agreement with its Manager be terminated, not renewed or not extended for any reason other than for cause, the Company would pay to the Manager an amount equal to the Installment Payment less the sum of all payments made by the Manager to GMAC. At December 31, 2005, the Installment Payment would be $5,000 payable over five years. The Company does not accrue for this contingent liability.

Note 14 STOCK OPTIONS

The Company has adopted a stock option plan (the "1998 Stock Option Plan") that provides for the grant of both qualified incentive stock options that meet the requirements of Section 422 of the Code and non-qualified stock options, stock appreciation rights and dividend equivalent rights. Stock options may be granted to the Manager, directors, officers and any key employees of the Company, directors, officers and key employees of the Manager and to any other individual or entity performing services for the Company.

The exercise price for any stock option granted under the 1998 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. Each option must terminate no more than ten years from the date it is granted and have vested over either a two or three-year period. Subject to anti-dilution provisions for stock splits, stock dividends and similar events, the 1998 Stock Option Plan authorizes the grant of options to purchase up to an aggregate of 2,470,453 shares of Common Stock.

The following table summarizes information about options outstanding under the 1998 Stock Option Plan:

	2005		2004		
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	S
Outstanding at January 1	1,417,851	$14.87	1,468,351	$14.75	1
Granted	-	-	5,000	11.81	
Exercised	-	-	(30,000)	8.44	
Cancelled	-	-	(25,500)	15.00	
Outstanding at December 31	1,417,851	$14.87	1,417,851	$14.87	1
Options exercisable at December 31	1,417,851*	$14.87	1,417,851	$14.87	1

*1,000 options expired in February 2006.

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The following table summarizes information about options outstanding under the 1998 Stock Option Plan at December 31, 2005:

Exercise Price	Options Outstanding at December 31, 2005	Remaining Contractual Life (Years)	Options Exercisable a December 31, 2005
$ 7.82	3,850	4.1	3,850
8.44	25,000	3.2	25,000
9.11	3,850	3.2	3,850
11.81	5,000	8.4	5,000
15.00	1,310,851	2.2	1,310,851
15.58	57,750	1.7	57,750
15.83	11,550	2.2	11,550
$7.82-$15.83	1,417,851	3.3	1,417,851

On May 25, 2004, the Company granted stock options to each of its unaffiliated directors with an exercise price equal to the closing price of the Common Stock on the New York Stock Exchange on such date (or $11.81). The options vested immediately upon grant. The fair value of the options granted is estimated on

the date of grant using the Black-Scholes option-pricing model with the following assumptions.

	2004
Estimated volatility	22.6%
Expected term	7 years
Risk-free interest rate	1.2%
Expected dividend yield	9.5%

There were no options granted in 2005 or 2003. Shares of Common Stock available for future grant under the 1998 Stock Option Plan at December 31, 2005 were 774,502.

Note 15 DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company accounts for its derivative investments under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, ("SFAS No. 133") which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. All derivatives, whether designated in hedging relationships or not, are required to be recorded on the consolidated statement of financial condition at estimated fair value. If the derivative is designated as a fair value hedge, the changes in the estimated fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of change in the estimated fair value of the derivative are recorded in other comprehensive income ("OCI") and are recognized in the income statement when the hedged item affects earnings. Ineffective portions of changes in the estimated fair value of cash flow hedges are recognized in earnings.

The Company uses interest rate swaps to manage exposure to variable cash flows on portions of its borrowings under reverse repurchase agreements and as trading derivatives intended to offset changes in fair value related to securities held as trading assets. On the date in which the derivative contract is entered, the Company designates the derivative as either a cash flow hedge or a trading derivative.

The reverse repurchase agreements bear interest at a LIBOR-based variable rate. Increases in the LIBOR rate could negatively impact earnings. The interest rate swap agreements allow the Company to receive a variable rate cash flow based on LIBOR and pay a fixed rate cash flow, mitigating the impact of this exposure.

Interest rate swap agreements contain an element of risk in the event that the counterparties to the agreements do not perform their obligations under the agreements. The Company minimizes its risk exposure by entering into agreements with parties rated at least A or better by nationally recognized credit rating organizations. Furthermore, the Company has interest rate swap agreements established with several different counterparties in order to reduce the risk of credit exposure to any one counterparty. Management does not expect any counterparty to default on their obligations. At December 31, 2005, the counterparties for the Company's swaps are Deutsche Bank, AG, Merrill Lynch Capital Services, Inc., Goldman Sachs Capital Markets, L.P., Lehman Special Financing Inc., and Morgan Stanley Capital Services Capital, Inc. with ratings of AA-, A+, A+, AA-, and A+, respectively. The Company continually monitors the rating and overall credit quality of its swap counterparties.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objectives and strategies for undertaking various hedge transactions. The Company assesses, both at the inception of the hedge and on an on-going basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. When it is determined that a derivative is not highly effective as a hedge, the Company discontinues hedge accounting prospectively.

Occasionally, counterparties will require the Company or the Company will require counterparties to provide collateral for the interest rate swap agreements in the form of margin deposits. Net deposits are recorded as a component of other assets or other liabilities. Should the counterparty fail to return deposits paid, the Company would be at risk for the estimated fair value of that asset. At December 31, 2005, the balance of such net margin deposits held by the Company as collateral under these agreements totaled $1,246. At December 31, 2004, the balance of such net margin deposits owed to counterparties as collateral under these agreements totaled $4,680.

2005

On June 9, 2005, interest rate swaps with notional amounts of $43,000 that were classified as trading derivatives were re-designated as cash flow hedges of borrowings under reverse repurchase agreements. The reclassification was based on the Company's intent with respect to these derivatives with the principle objective of generating returns from other than short-term pricing differences.

At December 31, 2005, the Company had interest rate swaps with notional amounts aggregating $1,201,953 designated as cash flow hedges of borrowings under reverse repurchase agreements and the floating rate debt of its CDOs. Cash flow hedges with an estimated fair value of $25,632 are included in other assets on the consolidated statement of financial condition and cash flow hedges with an estimated fair value of $8,782 are included in other liabilities on the consolidated statement of financial condition. This liability was collateralized with the restricted cash equivalents recorded on the Company's consolidated statement of financial condition. For the year ended December 31, 2005, the net change in the estimated fair value of the interest rate swaps was an increase of $25,436, of which $1,190 was deemed ineffective and is included as an increase of interest expense and $26,626 was recorded as an addition to OCI. At December 31, 2005, the $1,201,953 notional of swaps designated as cash flow hedges had a weighted average remaining term of 7.89 years.

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During the year ended December 31, 2005, the Company terminated nine of its interest rate swaps with a notional amount of $204,300 that were designated as cash flow hedges of borrowings under reverse repurchase agreements. The Company will reclassify the $2,034 loss in value incurred from OCI to interest expense over 8.86 years, which was the weighted average remaining term of the swaps at the time they were closed out. For the year ended December 31, 2005, $103 was reclassified as an increase to interest expense and $252 will be reclassified as an increase to interest expense for the next 12 months. As of December 31, 2005, the Company has, in aggregate, $35,530 of losses related to terminated swaps in OCI. For the year ended December 31, 2005, $6,129 was reclassified as an increase to interest expense for the next twelve months.

At December 31, 2005, the Company had interest rate swaps with notional amounts aggregating $356,445 designated as trading derivatives. Trading derivatives with an estimated fair value of $4,119 are included in other assets on the

consolidated statement of financial condition and trading derivatives with an estimated fair value of $125 are included in other liabilities on the consolidated statement of financial condition. For the year ended December 31, 2005, the change in estimated fair value for these trading derivatives was an increase of $3,030 and is included as a reduction of loss on securities held-for-trading in the consolidated statements of operations. At December 31, 2005, the $356,445 notional of swaps designated as trading derivatives had a weighted average remaining term of 6.99 years.

At December 31, 2005, the Company had a forward LIBOR cap with a notional amount of $85,000 and a fair value of $1,491 that is included in other assets. The change in estimated fair value related to this derivative is included as a component of gain (loss) on securities held-for-trading in the consolidated statements of operations.

2004

On July 6, 2004, interest rate swaps with a notional of $264,000 classified as trading derivatives were re-designated as cash flow hedges of borrowings under reverse repurchase agreements. The reclassification was based on the Company's intent with respect to these derivatives with the principle objective of generating returns from other than short-term pricing differences.

At December 31, 2004, the Company had interest rate swaps with notional amounts aggregating $1,170,720 designated as cash flow hedges of borrowings under reverse repurchase agreements and the floating rate debt of its CDOs. Cash flow hedges with an estimated fair value of $10,252 are included in other assets on the consolidated statement of financial condition and cash flow hedges with an estimated fair value of $21,261 are included in other liabilities on the consolidated statement of financial condition. This liability was collateralized with the restricted cash equivalents recorded on the Company's consolidated statement of financial condition. For the year ended December 31, 2004, the net change in the estimated fair value of the interest rate swaps was a decrease of $2,793, of which $1,015 was deemed ineffective and is included as an increase of interest expense and $1,078 was recorded as an increase of OCI and $2,856 was included as an addition to loss on trading securities due to a period of ineffectiveness. At December 31, 2004, the $1,170,720 notional of swaps that were designated as cash flow hedges had a weighted average remaining term of 7.32 years.

During the year ended December 31, 2004, the Company terminated fifteen of its interest rate swaps with a notional amount of $623,000 that were designated as cash flow hedges of borrowings under reverse repurchase agreements. The Company will reclassify the $18,978 loss in value incurred from OCI to interest expense over 5.54 years, which was the weighted average remaining term of the swaps at the time they were closed out. For the year ended December 31, 2004, $2,016 was reclassified as an increase to interest expense and $2,471 will be reclassified as an increase to interest expense for the next 12 months.

At December 31, 2004, the Company had interest rate swaps with notional amounts aggregating $239,445 designated as trading derivatives. Trading derivatives with an estimated fair value of $145 are included in other assets on the consolidated statement of financial condition and trading derivatives with a fair value of $5 are included in other liabilities on the consolidated statement of financial condition. For the year ended December 31, 2004, the change in fair value for these trading derivatives was a decrease of $54 and is included as an addition to loss on securities held-for-trading in the consolidated statement of operations. At December 31, 2004, the $239,445

notional of swaps, which were designated as trading derivatives, had a weighted average remaining term of 7.67 years.

At December 31, 2004, the Company had a forward LIBOR cap with a notional amount of $85,000 and a fair value of $694 that is included in other assets. The change in estimated fair value related to this derivative is included as a component of gain (loss) on securities held-for-trading in the consolidated statements of operations.

Foreign Currency

Changes in fair value of foreign currency forward commitments are included in net foreign currency gain or loss in the consolidated statement of operations.

The U.S. dollar is considered the functional currency for the Company's international subsidiaries. Foreign currency transaction gains or losses are recognized in the period incurred and are included in other gain (loss) in the consolidated statement of operations. Foreign currency forward commitments may be used to hedge the Company's net foreign investments. Gains and losses on foreign currency forward commitments are included in other gain (loss) in the consolidated statement of operations. The Company recorded net foreign currency transaction loss of $134 and $187 for the year ended December 31, 2005 and 2004, respectively. The Company did not incur any foreign currency gain (loss) for the year ended December 31, 2003. At December 31, 2005 and 2004, the Company also had foreign currency forward commitments with an estimated fair value of $(55,390) and $(25,807), respectively, included in other liabilities on the consolidated statement of financial condition.

Note 16 NET INCOME PER SHARE

Net income per share is computed in accordance with SFAS No. 128, Earnings Per Share ("SFAS No. 128"). Basic income per share is calculated by dividing net income available to common stockholders by the weighted average number of shares of Common Stock outstanding during the period. Diluted income per share is calculated using the weighted average number of shares of Common Stock outstanding during the period plus the additional dilutive effect of common stock equivalents. The dilutive effect of outstanding stock options is calculated using the treasury stock method, and the dilutive effect of preferred stock is calculated using the "if converted" method.

	For the yea
	2005
Numerator:	
Net income (loss) available to common stockholders	$65,205
Numerator for basic and diluted earnings (loss) per share	$65,205
Denominator:	
Denominator for basic earnings per share--weighted average common shares outstanding	54,144,243
Dilutive effect of stock options	8,577

Denominator for diluted earnings per share--weighted average common shares outstanding and common stock equivalents outstanding	54,152,820
Basic net income (loss) per weighted average common share:	$1.20
Diluted net income (loss) per weighted average common stock and common stock equivalents:	$1.20

Total anti-dilutive stock options and warrants excluded from the calculation of net income (loss) per share were 1,375,151, 1,385,151 and 1,468,351 for the years ended December 31, 2005, 2004, and 2003, respectively.

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Note 17 SUMMARIZED QUARTERLY RESULTS (UNAUDITED)

The following is a presentation of quarterly results of operations:

	Quarters Ending					
	March 31		June 30		September 30	
	2005	2004	2005	2004	2005	200
Interest Income	$57,308	$39,064	$58,125	$52,146	$61,938	$56
Expenses:						
Interest	36,504	20,873	38,970	33,150	42,804	37
Management fee and Other	3,399	2,732	3,599	2,796	3,732	3
Total Expenses	39,903	23,605	42,569	35,946	46,536	40
Gain (loss) on sale of securities available-for-sale	10	2,813	47	(4,036)	31	2
Gain (loss) on securities held-for-trading	(1,372)	(5,983)	(1,306)	(4,046)	897	(1
Foreign currency gain (loss)	(168)	-	(176)	(12)	87	
Loss on impairment of assets	(159)	-	(3,072)	-	-	
Net income	$15,716	$12,289	$11,049	$8,106	$16,417	$16
Cost to retire preferred stock in excess of carrying value	-	-	-	10,508	-	
Dividends and accretion on redeemable convertible preferred stock	1,348	2,446	1,348	1,775	1,348	1
Net income (loss) available to common stockholders	$14,368	$9,843	$9,701	$(4,177)	$15,069	$15

Net income (loss) per share,

basic:	$0.27	$0.20	$0.18	$(0.08)	$0.28	$
Net income (loss) per share, diluted:	$0.27	$0.20	$0.18	$(0.08)	$0.28	$

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Under the direction and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, the Company evaluated its disclosure controls and procedures and concluded that its disclosure controls and procedures were effective at December 31, 2005.

No change in internal control over financial reporting occurred during the quarter ended December 31, 2005 that has materially affected, or is reasonably likely to materially affect, such internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

(a) On December 9, 2005, the Company entered into an investment accounting agreement with BlackRock Financial Management, Inc., which in a separate capacity acts as the Company's Manager. See description above under Item 1 Business.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Incorporated by reference to the Company's Definitive Proxy Statement for the 2006 Annual Meeting of Stockholders.

ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference to the Company's Definitive Proxy Statement for the 2006 Annual Meeting of Stockholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Incorporated by reference to the Company's Definitive Proxy Statement for the 2006 Annual Meeting of Stockholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Incorporated by reference to the Company's Definitive Proxy Statement for the 2006 Annual Meeting of Stockholders.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Incorporated by reference to the Company's Definitive Proxy Statement for the 2006 Annual Meeting of Stockholders.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1)	Financial statements. See index to Financial statements at item 8 of this report.
(a)(3)	Exhibit Index.
*3.1	Articles of Amendment and Restatement of the Registrant
*3.2	Bylaws of the Registrant.
*3.3	Form of Articles Supplementary of the Registrant establishing 10% Cumulative Convertible Series B Preferred Stock.
*3.4	Articles Supplementary of the Registrant establishing 9.375% Series C Cumulative Redeemable Preferred Stock.
4.1	Junior Subordinated Indenture, dated as of September 26, 2005, between the Registrant and Wells Fargo Bank, National Association, as Trustee.
4.2	Junior Subordinated Indenture, dated as of January 31, 2006, between the Registrant and JPMorgan Chase Bank, National Association, as Trustee.
4.3	Junior Subordinated Indenture, dated as of March 16, 2006, between the Registrant and Wilmington Trust Company, as Trustee.
4.4	Amended and Restated Trust Agreement, dated as of September 26, 2005, among the Registrant, Wells Fargo Bank, National Association, as property trustee, Wells Fargo Delaware Trust Company, as Delaware trustee and the three administrative trustees, each of whom is an officer of the Company.
4.5	Amended and Restated Trust Agreement, dated as of January 31, 2006, among the Registrant, as depositor, JPMorgan Chase Bank, National Association, as property trustee, Chase Bank USA, National Association, as Delaware trustee and the three administrative trustees, each of whom is an officer of the Company.
4.6	Amended and Restated Trust Agreement, dated as of March 16, 2006 among the Registrant, as depositor, Wilmington Trust Company, as property trustee, Wilmington Trust Company, as Delaware trustee and the three administrative trustees, each of whom is an officer of the Company.
*10.1	Investment Advisory Agreement between the Registrant and BlackRock Financial Management, Inc.
*10.2	Amendment No. 1 to the Investment Advisory Agreement between the Registrant and BlackRock Financial Management, Inc.
*10.3	Amendment No. 2 to the Investment Advisory Agreement between the Registrant and BlackRock Financial Management, Inc.

*10.4	Amendment No. 3 to the Investment Advisory Agreement between the Registrant and BlackRock Financial Management, Inc.
*10.5	Amended and Restated Investment Advisory Agreement between the Registrant and BlackRock Financial Management, Inc.
*10.7	Form of 1998 Stock Option Incentive Plan.
*10.8	Annex I to Master Repurchase Agreement, dated as of July 8, 2002, between Anthracite Funding LLC and Deutsche Bank AG, Cayman Islands.
10.9	Accounting Services Agreement, dated as of December 9, 2005, between the Registrant and BlackRock Financial Management, Inc.
10.10	Multicurrency Revolving Facility Agreement, dated as of February 14, 2006, among AHR Capital MS Limited, as borrower, Morgan Stanley Mortgage Servicing Inc., as security trustee and Morgan Stanley Bank, as initial lender and agent.
21.1	Subsidiaries of the Registrant
23.1	Consent of Deloitte & Touche LLP
24.1	Power of Attorney (included on signature page hereto)
31.1	Certification of Chief Executive Officer
31.2	Certification of Chief Financial Officer
32.1	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer

* Previously filed.

SIGNATURES

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

ANTHRACITE CAPITAL, INC.

Date: March 16, 2006

By: /s/ Christopher A. Milner

Christopher A. Milner
Chief Executive Officer
(duly authorized representative)

KNOW ALL MEN BY THESE PRESENTS, that each individual whose signature appears below constitutes and appoints Richard M. Shea his true and lawful attorney-in-fact and agents with full power of substitution and re-substitution, for his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Form 10-K and to file the same with all exhibits thereto, and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof. This power of attorney may be executed in counterparties.

Pursuant to the requirements of the Securities Exchange Act of 1934, as

amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Date: March 16, 2006 By: /s/ Christopher A. Milner

Christopher A. Milner
Chief Executive Officer

Date: March 16, 2006 By: /s/ James J. Lillis

James J. Lillis
Chief Financial Officer

Date: March 16, 2006 By: /s/ Ralph L. Schlosstein

Ralph L. Schlosstein
Chairman of the Board of Directors

Date: March 16, 2006 By:

Scott Amero
Director

Date: March 16, 2006 By: /s/ Hugh R. Frater

Hugh R. Frater
Director

Date: March 16, 2006 By: /s/ Donald G. Drapkin

Donald G. Drapkin
Director

Date: March 16, 2006 By: /s/ Carl F. Geuther

Carl F. Geuther
Director

Date: March 16, 2006 By: /s/ Jeffrey C. Keil

Jeffrey C. Keil
Director

Date: March 16, 2006 By: /s/ Leon T. Kendall

Leon T. Kendall
Director

Date: March 16, 2006 By: /s/ Deborah J. Lucas

Deborah J. Lucas
Director

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