Ellington Financial LLC
Form 10-Q
August 09, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2018

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 number 001-34569

Ellington Financial LLC
(Exact Name of Registrant as Specified in Its Charter)

Delaware	26-0489289
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

53 Forest Avenue, Old Greenwich, Connecticut 06870
(Address of Principal Executive Office) (Zip Code)
(203) 698-1200
(Registrant's Telephone Number, Including Area Code)

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	¨	Accelerated Filer	x
Non-Accelerated Filer (Do not check if a smaller reporting company)	¨	Smaller Reporting Company	¨
		Emerging Growth Company	¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at August 3, 2018

Common Shares Representing Limited Liability Company Interests, no par value	30,151,721

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PART I—FINANCIAL INFORMATION
Item 1. Consolidated Financial Statements (Unaudited)
ELLINGTON FINANCIAL LLC
CONSOLIDATED STATEMENT OF ASSETS, LIABILITIES, AND EQUITY
(UNAUDITED)

	June 30, 2018	December 31, 2017
(In thousands except share amounts)	Expressed in U.S. Dollars	
ASSETS		
Cash and cash equivalents	$22,071	$ 47,233
Restricted cash	425	425
Investments, financial derivatives, and repurchase agreements:		
Investments, at fair value (Cost – $2,631,409 and $2,071,754)	2,625,471	2,071,707
Financial derivatives–assets, at fair value (Net cost – $24,510 and $31,474)	30,669	28,165
Repurchase agreements, at fair value (Cost – $214,346 and $155,109)	214,411	155,949
Total investments, financial derivatives, and repurchase agreements	2,870,551	2,255,821
Due from brokers	84,196	140,404
Receivable for securities sold and financial derivatives	637,965	476,000
Interest and principal receivable	32,469	29,688
Other assets	24,399	43,770
Total Assets	$3,672,076	$ 2,993,341
LIABILITIES		
Investments and financial derivatives:		
Investments sold short, at fair value (Proceeds – $880,825 and $640,202)	$882,146	$ 642,240
Financial derivatives–liabilities, at fair value (Net proceeds – $18,294 and $27,463)	25,675	36,273
Total investments and financial derivatives	907,821	678,513
Reverse repurchase agreements	1,421,506	1,209,315
Due to brokers	3,250	1,721
Payable for securities purchased and financial derivatives	431,024	202,703
Other secured borrowings (Proceeds – $95,630 and $57,909)	95,630	57,909
Other secured borrowings, at fair value (Proceeds – $102,298 and $125,105)	101,100	125,105
Senior notes, net	84,902	84,771
Accounts payable and accrued expenses	4,105	3,885
Base management fee payable to affiliate	2,021	2,113
Incentive fee payable	291	—
Interest and dividends payable	6,791	5,904
Other liabilities	360	441
Total Liabilities	3,058,801	2,372,380
EQUITY	613,275	620,961
TOTAL LIABILITIES AND EQUITY	$3,672,076	$ 2,993,341
Commitments and contingencies (Note 17)		
ANALYSIS OF EQUITY:		
Common shares, no par value, 100,000,000 shares authorized;		
(30,149,880 and 31,335,938 shares issued and outstanding)	$589,000	$ 589,722
Additional paid-in capital – Long term incentive plan units	10,567	10,377
Total Shareholders' Equity	599,567	600,099
Non-controlling interests	13,708	20,862
Total Equity	$613,275	$ 620,961

PER SHARE INFORMATION:		
Common shares	$ 19.89	$ 19.15

See Notes to Consolidated Financial Statements

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ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT JUNE 30, 2018
(UNAUDITED)

Current Principal/Number of Shares	Description	Rate	Maturity	Fair Value
(In thousands)				Expressed in U.S. Dollars
Cash Equivalents—Money Market Funds (1.11%) (a) (b)				
North America				
Funds				
$6,833	Various	1.80% - 1.81%		$ 6,833
Total Cash Equivalents—Money Market Funds (Cost $6,833)				$ 6,833
Long Investments (428.11%) (a) (b) (ad)				
Mortgage-Backed Securities (256.80%)				
Agency Securities (206.36%) (c)				
Fixed Rate Agency Securities (192.85%)				
Principal and Interest - Fixed Rate Agency Securities (139.11%)				
North America				
Mortgage-related—Residential				
$129,679	Federal National Mortgage Association Pools (30 Year)	4.00%	9/39 - 3/48	$133,114
111,971	Federal Home Loan Mortgage Corporation Pools (30 Year)	4.00%	11/41 - 7/48	114,913
85,957	Federal National Mortgage Association Pools (30 Year)	3.50%	9/42 - 2/48	85,942
73,728	Federal Home Loan Mortgage Corporation Pools (30 Year)	4.50%	9/43 - 5/48	77,234
70,076	Federal National Mortgage Association Pools (30 Year)	4.50%	10/41 - 6/48	73,524
52,004	Government National Mortgage Association Pools (30 Year)	4.00%	7/45 - 5/48	53,331
47,147	Federal National Mortgage Association Pools (15 Year)	3.50%	3/28 - 3/32	47,772
40,956	Government National Mortgage Association Pools (30 Year)	3.50%	12/42 - 2/48	41,041
34,242	Federal National Mortgage Association Pools (30 Year)	5.00%	10/35 - 5/48	36,520
32,197	Government National Mortgage Association Pools (30 Year)	5.00%	2/48 - 6/48	34,018
27,559	Federal Home Loan Mortgage Corporation Pools (30 Year)	3.50%	1/42 - 3/48	27,560
21,710	Government National Mortgage Association Pools (30 Year)	4.50%	9/46 - 4/48	22,714
14,735	Government National Mortgage Association Pools (30 Year)	5.50%	4/48 - 6/48	15,739
11,624	Federal National Mortgage Association Pools (15 Year)	3.00%	4/30 - 9/32	11,570
8,869	Federal Home Loan Mortgage Corporation Pools (15 Year)	3.50%	9/28 - 12/32	8,983
8,198	Federal Home Loan Mortgage Corporation Pools (Other)	3.50%	2/30 - 9/46	8,205
6,541	Federal National Mortgage Association Pools (15 Year)	4.00%	6/26 - 5/31	6,729
5,070	Federal National Mortgage Association Pools (30 Year)	5.50%	10/39 - 6/48	5,460
5,086	Federal Home Loan Mortgage Corporation Pools (30 Year)	5.00%	7/44 - 4/48	5,395
5,062	Federal National Mortgage Association Pools (Other)	5.00%	9/43 - 1/44	5,365
4,926	Federal National Mortgage Association Pools (Other)	4.00%	6/37 - 12/47	5,013
3,542	Federal Home Loan Mortgage Corporation Pools (30 Year)	3.00%	7/43 - 1/47	3,448

2,666	Government National Mortgage Association Pools (30 Year)	3.75%	7/47	2,688
2,538	Federal Home Loan Mortgage Corporation Pools (Other)	4.50%	5/44	2,648
2,703	Federal National Mortgage Association Pools (30 Year)	3.00%	1/42 - 6/45	2,639
2,465	Federal National Mortgage Association Pools (15 Year)	4.50%	4/26	2,564
2,479	Federal National Mortgage Association Pools (Other)	4.50%	5/41	2,561
2,436	Federal Home Loan Mortgage Corporation Pools (15 Year)	3.00%	4/30	2,424
1,774	Federal Home Loan Mortgage Corporation Pools (30 Year)	5.50%	8/33 - 5/48	1,915
1,594	Federal National Mortgage Association Pools (20 Year)	4.00%	12/33	1,648
1,236	Government National Mortgage Association Pools (30 Year)	6.00%	5/48	1,337

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ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT JUNE 30, 2018 (CONTINUED)
(UNAUDITED)

Current Principal/Notional Value	Description	Rate	Maturity	Fair Value
(In thousands)				Expressed in U.S. Dollars
(continued)				
$1,234	Federal Home Loan Mortgage Corporation Pools (15 Year)	4.00%	2/29	$ 1,267
1,147	Federal National Mortgage Association Pools (30 Year)	6.00%	9/39 - 2/40	1,257
1,099	Federal Home Loan Mortgage Corporation Pools (Other)	3.00%	6/28 - 3/30	1,091
1,000	Federal Home Loan Mortgage Corporation Pools (20 Year)	4.50%	12/33	1,053
856	Federal Home Loan Mortgage Corporation Pools (30 Year)	6.00%	5/40	937
885	Federal National Mortgage Association Pools (Other)	3.00%	10/46	853
722	Government National Mortgage Association Pools (30 Year)	3.00%	11/42	707
626	Government National Mortgage Association Pools (Other)	3.50%	10/30 - 2/32	616
650	Government National Mortgage Association Pools (30 Year)	2.49%	10/43	610
461	Federal National Mortgage Association Pools (Other)	3.50%	4/26	467
145	Government National Mortgage Association Pools (Other)	3.00%	6/30	141
110	Federal National Mortgage Association Pools (30 Year)	3.28%	6/42	107
				853,120
Interest Only - Fixed Rate Agency Securities (2.05%)				
North America				
Mortgage-related—Residential				
19,686	Government National Mortgage Association	4.00%	2/45 - 6/45	3,498
12,358	Federal National Mortgage Association	4.50%	12/20 - 6/44	1,512
5,270	Government National Mortgage Association	6.00%	6/38 - 8/39	1,093
7,183	Government National Mortgage Association	4.50%	6/39 - 7/44	966
3,745	Federal National Mortgage Association	5.50%	10/39	831
4,078	Government National Mortgage Association	5.50%	11/43	719
3,896	Federal National Mortgage Association	4.00%	5/39 - 11/43	613
3,984	Federal Home Loan Mortgage Corporation	3.50%	12/32	591
6,137	Federal Home Loan Mortgage Corporation	5.00%	11/38	528
3,254	Federal National Mortgage Association	5.00%	1/38 - 5/40	509
4,441	Federal Home Loan Mortgage Corporation	5.50%	1/39 - 9/39	439
1,801	Federal National Mortgage Association	6.00%	1/40	318
1,527	Federal Home Loan Mortgage Corporation	4.50%	7/43	283
3,909	Government National Mortgage Association	5.00%	5/37 - 5/41	261
2,488	Federal National Mortgage Association	3.00%	9/41	237
930	Government National Mortgage Association	4.75%	7/40	183
				12,581
TBA - Fixed Rate Agency Securities (51.69%)				
North America				
Mortgage-related—Residential				
93,642	Government National Mortgage Association (30 Year)	5.00%	8/18	98,156
91,953	Federal National Mortgage Association (30 Year)	4.00%	7/18	93,756
39,213	Government National Mortgage Association (30 Year)	5.00%	7/18	41,161
21,540	Federal Home Loan Mortgage Corporation (30 Year)	3.50%	7/18	21,425

18,609	Government National Mortgage Association (30 Year)	4.50%	7/18	19,343
17,600	Federal National Mortgage Association (30 Year)	4.50%	8/18	18,297

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ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT JUNE 30, 2018 (CONTINUED)
(UNAUDITED)

Current Principal/Notional Value	Description	Rate	Maturity	Fair Value
(In thousands)				Expressed in U.S. Dollars
(continued)				
$8,675	Government National Mortgage Association (30 Year)	5.50%	7/18	$ 9,165
8,240	Government National Mortgage Association (30 Year)	4.00%	7/18	8,445
4,825	Government National Mortgage Association (30 Year)	3.00%	7/18	4,724
1,660	Federal Home Loan Mortgage Corporation (15 Year)	3.00%	7/18	1,648
890	Government National Mortgage Association (30 Year)	3.50%	7/18	893
				317,013
Total Fixed Rate Agency Securities (Cost $1,203,700)				1,182,714
Floating Rate Agency Securities (13.51%)				
Principal and Interest - Floating Rate Agency Securities (10.20%)				
North America				
Mortgage-related—Residential				
53,399	Government National Mortgage Association Pools	4.41% - 4.68%	7/61 - 12/67	56,371
4,132	Federal National Mortgage Association Pools	2.70% - 4.69%	9/35 - 5/45	4,283
1,835	Federal Home Loan Mortgage Corporation Pools	3.49% - 4.33%	6/37 - 5/44	1,872
				62,526
Interest Only - Floating Rate Agency Securities (3.31%)				
North America				
Mortgage-related—Residential				
283,640	Other Government National Mortgage Association	0.36% - 4.71%	3/37 - 10/66	13,246
56,713	Other Federal National Mortgage Association	1.12% - 5.50%	6/33 - 12/41	4,782
22,991	Other Federal Home Loan Mortgage Corporation	3.93% - 4.58%	3/36 - 1/44	2,109
7,818	Resecuritization of Government National Mortgage Association (d)	2.60%	8/60	181
				20,318
Total Floating Rate Agency Securities (Cost $85,730)				82,844
Total Agency Securities (Cost $1,289,430)				1,265,558
Private Label Securities (50.44%)				
Principal and Interest - Private Label Securities (49.17%)				
North America (27.06%)				
Mortgage-related—Residential				
208,679	Various	0.00% - 27.05%	5/19 - 3/47	152,506
Mortgage-related—Commercial				
42,805	Various	2.80% - 4.25%	8/46 - 5/61	13,469
Total North America (Cost $155,765)				165,975
Europe (22.11%)				
Mortgage-related—Residential				
145,103	Various	0.00% - 5.50%	6/25 - 12/50	119,269
Mortgage-related—Commercial				
26,027	Various	0.37% - 4.04%	10/20 - 8/45	16,309

Total Europe (Cost $133,727)	135,578
Total Principal and Interest - Private Label Securities (Cost $289,492)	301,553

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CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT JUNE 30, 2018 (CONTINUED)
(UNAUDITED)

Current Principal/Notional Value	Description	Rate	Maturity	Fair Value
(In thousands)				Expressed in U.S. Dollars
Interest Only - Private Label Securities (1.27%)				
North America				
Mortgage-related—Residential				
$33,472	Various	0.00% - 2.00%	12/30 - 9/47	$ 4,328
Mortgage-related—Commercial				
43,707	Various	1.25% - 2.00%	3/49 - 5/61	3,458
Total Interest Only - Private Label Securities (Cost $5,694)				7,786
Other Private Label Securities (0.00%)				
North America				
Mortgage-related—Residential				
70,577	Various	—%	6/37	—
Mortgage-related—Commercial				
—	Various	—%	7/45 - 5/61	—
Total Other Private Label Securities (Cost $191)				—
Total Private Label Securities (Cost $295,377)				309,339
Total Mortgage-Backed Securities (Cost $1,584,807)				1,574,897
Collateralized Loan Obligations (34.29%)				
North America (32.00%) (e)				
335,854	Various	0.00% - 10.04%	7/18 - 11/57	196,254
Total North America (Cost $201,637)				196,254
Europe (2.29%)				
14,663	Various	4.47% - 7.95%	4/24 - 1/27	14,067
Total Europe (Cost $14,194)				14,067

Total Collateralized Loan Obligations (Cost $215,831)				210,321
Consumer Loans and Asset-backed Securities backed by Consumer Loans (32.49%) (f)				
North America (31.07%)				
Consumer (g) (h)				
207,154	Various	5.31% - 76.50%	7/18 - 6/23	190,531
Total North America (Cost $194,898)				190,531
Europe (1.42%)				
Consumer				
3,608	Various	—%	8/24 - 12/30	8,723
Total Europe (Cost $899)				8,723
Total Consumer Loans and Asset-backed Securities backed by Consumer Loans (Cost $195,797)				199,254

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ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT JUNE 30, 2018 (CONTINUED)
(UNAUDITED)

Current Principal/Number of Properties (In thousands)		Rate	Maturity	Fair Value Expressed in U.S. Dollars
Corporate Debt (13.23%)				
North America (11.28%)				
Basic Materials				
$3,770	Various	3.55% - 7.63%	10/21 - 3/26	$ 3,775
Communications				
14,216	Various	4.13% - 12.29%	4/20 - 3/27	14,618
Consumer				
26,786	Various	2.60% - 10.86%	1/19 - 12/34	26,750
Energy				
3,975	Various	4.63% - 7.88%	9/21 - 8/25	3,985
Financial				
355	Various	5.00%	8/22	359
Industrial				
13,715	Various	3.25% - 5.88%	6/20 - 1/28	13,440
Technology				
6,770	Various	3.63% - 4.38%	9/20 - 5/22	6,275
Total North America (Cost $65,053)				69,202
Europe (1.95%)				
Consumer				
20,636	Various	—%	9/18	52
Financial				
12,344	Various	0.00% - 16.00%	10/20 - 11/22	11,884
Total Europe (Cost $13,081)				11,936
Total Corporate Debt (Cost $78,134)				81,138
Secured Notes (1.82%) (n)				
North America				
Mortgage-related—Residential				
17,945	Various	5.00%	11/57	11,126
Total Secured Notes (Cost $11,361)				11,126
Mortgage Loans (64.97%) (f)				
North America				
Mortgage-related—Commercial (j)				
105,453	Various	3.73% - 13.50%	8/18 - 10/37	104,951
Mortgage-related—Residential (k) (m)				
293,774	Various	2.00% - 15.00%	7/18 - 6/58	293,472

Total Mortgage Loans (Cost $396,155)		398,423
Real Estate Owned (5.60%) (f) (l)		
North America		
Real estate-related		
5	Single-Family Houses	894
18	Commercial Properties	33,445
Total Real Estate Owned (Cost $33,593)		34,339

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ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT JUNE 30, 2018 (CONTINUED)
(UNAUDITED)

Current Principal/Number of Shares (In thousands)		Rate	Maturity	Fair Value Expressed in U.S. Dollars
Corporate Equity Investments (7.42%)				
North America (7.42%)				
Asset-Backed Securities				
n/a	Non-Controlling Equity Interest in Limited Liability Company (i)			$ 5,284
Communications				
7	Non-Exchange Traded Corporate Equity			174
Consumer				
n/a	Non-Controlling Equity Interest in Limited Liability Company (i)			6,053
23	Exchange Traded Equity			54
1,540	Non-Exchange Traded Corporate Equity			5
Diversified				
144	Non-Exchange Traded Corporate Equity			1,275
Financial				
61	Exchange Traded Equity			683
Mortgage-related—Commercial (n)				
n/a	Non-Controlling Equity Interest in Limited Liability Company			1,150
Mortgage-related—Residential (n)				
23	Non-Exchange Traded Preferred Equity Investment in Mortgage Originators			28,009
9,818	Non-Exchange Traded Common Equity Investment in Mortgage Originators			2,814
Total North America (Cost $45,260)				45,501
Europe (0.00%)				
Consumer				
125	Non-Exchange Traded Corporate Equity			—
Financial				
—	Non-Exchange Traded Corporate Equity			4
Total Europe (Cost $4)				4
Total Corporate Equity Investments (Cost $45,264)				45,505
U.S. Treasury Securities (11.49%)				
North America				
Government				
$68,175	U.S. Treasury Note	2.63%	6/23	67,842
1,995	U.S. Treasury Note	2.25%	11/27	1,895
448	U.S. Treasury Note	2.63%	3/25	443
292	U.S. Treasury Note	2.00%	1/21	288
Total U.S. Treasury Securities (Cost $70,467)				70,468
Total Long Investments (Cost $2,631,409)				$ 2,625,471

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ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT JUNE 30, 2018 (CONTINUED)
(UNAUDITED)

Current Principal (In thousands)	Description	Rate	Maturity	Fair Value Expressed in U.S. Dollars
	Repurchase Agreements (34.96%) (a) (b) (o)			
$112,808	JP Morgan Securities LLC Collateralized by Par Value $111,830 U.S. Treasury Note, Coupon 2.75% Maturity Date 5/23	2.08%	7/18	$ 112,808
15,396	JP Morgan Securities LLC Collateralized by Par Value $15,300 U.S. Treasury Note, Coupon 2.63% Maturity Date 6/21	2.15%	7/18	15,396
13,847	JP Morgan Securities LLC Collateralized by Par Value $13,607 U.S. Treasury Note, Coupon 2.88% Maturity Date 5/28	1.92%	7/18	13,847
13,239	JP Morgan Securities LLC Collateralized by Par Value $13,025 U.S. Treasury Note, Coupon 2.88% Maturity Date 5/28	1.98%	7/18	13,239
10,595	JP Morgan Securities LLC Collateralized by Par Value $10,158 Sovereign Government Bond, Coupon 0.75% Maturity Date 7/21	(0.55)%	12/18	10,595
10,264	Bank of America Securities Collateralized by Par Value $10,200 U.S. Treasury Note, Coupon 2.88% Maturity Date 5/25	2.10%	7/18	10,264
9,587	JP Morgan Securities LLC Collateralized by Par Value $9,212 Sovereign Government Bond, Coupon 2.75% Maturity Date 4/19	(0.55)%	12/18	9,587
5,667	CILO 2016-LD1 Holdings LLC (p) Collateralized by Par Value $9,511 Exchange-Traded Debt, Coupon 5.50%, Maturity Date 7/22	3.92%	9/18	5,667
3,098	Bank of America Securities Collateralized by Par Value $3,094 U.S. Treasury Note, Coupon 2.75% Maturity Date 2/28	2.15%	7/18	3,098
2,834	CS First Boston Collateralized by Par Value $2,845 Exchange-Traded Corporate Debt, Coupon 8.00%, Maturity Date 6/27	(2.00)%	7/18	2,834
2,703	Barclays Capital Inc	0.25%	7/18	2,703

Collateralized by Par Value $2,495
Exchange-Traded Corporate Debt, Coupon 5.63%
Maturity Date 10/23

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ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT JUNE 30, 2018 (CONTINUED)
(UNAUDITED)

Current Principal (In thousands) (continued)	Description	Rate	Maturity	Fair Value Expressed in U.S. Dollars
$2,111	Bank of America Securities Collateralized by Par Value $2,101 U.S. Treasury Note, Coupon 2.75% Maturity Date 4/23	2.10%	7/18	$ 2,111
2,029	Societe Generale Collateralized by Par Value $1,850 Exchange-Traded Corporate Debt, Coupon 7.50% Maturity Date 4/24	(1.15)%	7/18	2,029
2,020	RBC Capital Markets LLC Collateralized by Par Value $1,985 Exchange-Traded Corporate Debt, Coupon 5.13% Maturity Date 11/23	1.35%	7/18	2,020
1,067	Barclays Capital Inc Collateralized by Par Value $1,045 Exchange-Traded Corporate Debt, Coupon 5.88% Maturity Date 10/20	(2.00)%	7/18	1,067
1,066	Bank of America Securities Collateralized by Par Value $1,050 U.S. Treasury Bond, Coupon 3.00% Maturity Date 2/48	1.75%	7/18	1,066
968	Bank of America Securities Collateralized by Par Value $968 U.S. Treasury Note, Coupon 1.88% Maturity Date 12/19	2.15%	7/18	968
773	RBC Capital Markets LLC Collateralized by Par Value $745 Exchange-Traded Corporate Debt, Coupon 5.13% Maturity Date 9/24	1.45%	7/18	773
615	Barclays Capital Inc Collateralized by Par Value $710 Exchange-Traded Corporate Debt, Coupon 4.50% Maturity Date 4/22	(2.00)%	7/18	615
542	RBC Capital Markets LLC Collateralized by Par Value $545 Exchange-Traded Corporate Debt, Coupon 8.25% Maturity Date 6/23	1.15%	7/18	542
519	RBC Capital Markets LLC Collateralized by Par Value $500 Exchange-Traded Corporate Debt, Coupon 5.75% Maturity Date 10/22	1.55%	7/18	519
503	RBC Capital Markets LLC	(0.50)%	7/18	503

Collateralized by Par Value $545
Exchange-Traded Corporate Debt, Coupon 10.50%
Maturity Date 9/22

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ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT JUNE 30, 2018 (CONTINUED)
(UNAUDITED)

Current Principal (In thousands) (continued)	Description	Rate	Maturity	Fair Value Expressed in U.S. Dollars
$461	RBC Capital Markets LLC Collateralized by Par Value $470 Exchange-Traded Corporate Debt, Coupon 4.50% Maturity Date 4/24	1.55%	7/18	$ 461
451	Bank of America Securities Collateralized by Par Value $448 U.S. Treasury Note, Coupon 2.75% Maturity Date 2/25	2.15%	7/18	451
265	Bank of America Securities Collateralized by Par Value $275 U.S. Treasury Bond, Coupon 2.75% Maturity Date 8/47	2.15%	7/18	265
262	RBC Capital Markets LLC Collateralized by Par Value $250 Exchange-Traded Corporate Debt, Coupon 8.00% Maturity Date 6/27	(2.38)%	7/18	262
243	Barclays Capital Inc Collateralized by Par Value $250 Exchange-Traded Corporate Debt, Coupon 4.50% Maturity Date 4/22	(1.75)%	7/18	243
242	RBC Capital Markets LLC Collateralized by Par Value $230 Exchange-Traded Corporate Debt, Coupon 8.00% Maturity Date 6/27	(2.00)%	7/18	242
236	RBC Capital Markets LLC Collateralized by Par Value $255 Exchange-Traded Corporate Debt, Coupon 4.70% Maturity Date 4/23	1.55%	7/18	236
Total Repurchase Agreements (Cost $214,346)				$ 214,411

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ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT JUNE 30, 2018 (CONTINUED)
(UNAUDITED)

Current Principal (In thousands)	Description	Rate	Maturity	Fair Value Expressed in U.S. Dollars
Investments Sold Short (-143.84%) (a) (b)				
TBA - Fixed Rate Agency Securities Sold Short (-100.88%) (q)				
North America				
Mortgage-related—Residential				
$(134,610)	Government National Mortgage Association (30 year)	3.50%	7/18	$ (135,083)
(92,000)	Federal Home Loan Mortgage Corporation (30 year)	4.00%	8/18	(93,642)
(82,133)	Government National Mortgage Association (30 year)	4.00%	7/18	(84,167)
(63,000)	Federal National Mortgage Association (30 year)	3.50%	8/18	(62,626)
(48,930)	Federal National Mortgage Association (30 year)	5.00%	7/18	(51,839)
(42,801)	Federal Home Loan Mortgage Corporation (30 year)	4.50%	8/18	(44,475)
(38,520)	Federal National Mortgage Association (15 year)	3.50%	7/18	(38,976)
(25,490)	Federal National Mortgage Association (15 year)	3.00%	7/18	(25,339)
(20,402)	Federal National Mortgage Association (30 year)	3.50%	7/18	(20,305)
(13,970)	Federal National Mortgage Association (30 year)	5.00%	8/18	(14,773)
(13,112)	Federal National Mortgage Association (30 year)	3.00%	8/18	(12,687)
(11,110)	Federal National Mortgage Association (30 year)	4.50%	7/18	(11,569)
(9,297)	Federal Home Loan Mortgage Corporation (30 year)	4.00%	7/18	(9,477)
(6,860)	Federal National Mortgage Association (30 year)	5.50%	8/18	(7,348)
(5,515)	Federal Home Loan Mortgage Corporation (30 year)	3.00%	8/18	(5,332)
(1,050)	Government National Mortgage Association (30 year)	3.00%	7/18	(1,027)
Total TBA - Fixed Rate Agency Securities Sold Short (Proceeds -$616,872)				(618,665)
Government Debt Sold Short (-29.20%)				
North America (-25.96%)				
Government				
(111,830)	U.S. Treasury Note	2.75%	5/23	(111,975)
(15,300)	U.S. Treasury Note	2.63%	6/21	(15,303)
(13,321)	U.S. Treasury Note	2.88%	5/28	(13,349)
(10,200)	U.S. Treasury Note	2.88%	5/25	(10,242)
(3,094)	U.S. Treasury Note	2.75%	2/28	(3,067)
(2,561)	U.S. Treasury Note	2.75%	4/23	(2,563)
(1,050)	U.S. Treasury Bond	3.00%	2/48	(1,053)
(968)	U.S. Treasury Note	1.88%	12/19	(960)
(448)	U.S. Treasury Note	2.75%	2/25	(446)
(275)	U.S. Treasury Bond	2.75%	8/47	(262)
Total North America (Proceeds -$159,005)				(159,220)
Europe (-3.24%)				
Government				
(19,370)	European Sovereign Bond	0.75% - 2.75%	4/19 - 7/21	(19,866)
Total Europe (Proceeds -$19,668)				(19,866)
Total Government Debt Sold Short (Proceeds -$178,673)				(179,086)

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ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT JUNE 30, 2018 (CONTINUED)
(UNAUDITED)

Current Principal/Number of Shares	Description	Rate	Maturity	Fair Value
(In thousands)				Expressed in U.S. Dollars
Common Stock Sold Short (-5.49%)				
North America				
Financial				
(774)	Exchange Traded Equity			$ (33,684)
Total Common Stock Sold Short (Proceeds -$34,786)				(33,684)
Corporate Debt Sold Short (-8.27%)				
North America				
Basic Materials				
$(2,695)	Various	3.45%	6/27	(2,551)
Communications				
(15,485)	Various	3.40% -10.50%	9/22 - 5/25	(14,359)
Consumer				
(15,467)	Various	4.35% - 5.88%	10/20 - 2/28	(15,396)
Energy				
(9,125)	Various	4.50% - 8.25%	4/22 - 6/27	(8,882)
Financial				
(2,345)	Various	3.75% - 5.13%	9/24 - 3/26	(2,381)
Industrial				
(5,955)	Various	3.55% - 5.90%	10/24 - 2/27	(5,908)
Technology				
(255)	Various	4.70%	4/23	(230)
Utilities				
(940)	Various	7.25%	5/26	(1,004)
Total Corporate Debt Sold Short (Proceeds -$50,494)				(50,711)
Total Investments Sold Short (Proceeds -$880,825)				$ (882,146)

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ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT JUNE 30, 2018 (CONTINUED)
(UNAUDITED)

(In thousands)	Primary Risk Exposure	Notional Value	Range of Expiration Dates	Fair Value Expressed in U.S.Dollars
Financial Derivatives–Assets (5.00%) (a) (b)				
Swaps (4.88%)				
Long Swaps:				
Credit Default Swaps on Corporate Bond Indices (r)	Credit	$ 39,184	6/19 - 12/22	$ 816
Credit Default Swaps on Asset-Backed Indices (r)	Credit	980	12/37 - 11/59	8
Interest Rate Swaps (s)	Interest Rates	4,375	1/24 - 3/24	59
North America				
Credit Default Swaps on Corporate Bonds (r)				
Basic Materials	Credit	7,868	12/22 - 6/23	428
Communications	Credit	9,730	12/20 - 6/23	244
Consumer	Credit	19,565	6/22 - 6/23	2,858
Energy	Credit	9,642	12/18 - 12/22	304
Financial	Credit	2,495	6/23	331
Industrial	Credit	1,410	6/23	39
Utilities	Credit	1,175	6/23	169
Total Credit Default Swaps on Corporate Bonds				4,373
Short Swaps:				
Credit Default Swaps on Asset-Backed Indices (t)	Credit	(19,651)	5/46 - 11/59	3,712
Interest Rate Swaps (u)	Interest Rates	(570,809)	7/18 - 12/45	15,711
North America				
Credit Default Swaps on Asset-Backed Securities (t)				
Mortgage-related—Residential	Credit	(5,396)	5/35 - 12/35	2,591
Credit Default Swaps on Corporate Bonds (t)				
Basic Materials	Credit	(695)	3/22	5
Communications	Credit	(20,395)	12/18 - 12/22	1,550
Consumer	Credit	(10,165)	12/18 - 6/23	168
Energy	Credit	(8,563)	12/18 - 12/22	353
Industrial	Credit	(585)	6/23	27
Technology	Credit	(7,000)	6/20 - 12/22	553
Total Credit Default Swaps on Corporate Bonds				2,656
Total Return Swaps (v)				
Financial	Credit	(8,018)	7/19	—
Total Total Return Swaps				—
Total Swaps (Net cost $24,507)				29,926
Options (0.00%)				
Purchased Options:				
Interest Rate Caps (x)	Interest Rates	90,253	10/18 - 5/19	—
Total Options (Cost $3)				—

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ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT JUNE 30, 2018 (CONTINUED)
(UNAUDITED)

	Primary Risk Exposure	Notional Value	Range of Expiration Dates	Fair Value
(In thousands)				Expressed in U.S.Dollars
Futures (0.11%)				
Short Futures:				
U.S. Treasury Note Futures (y)	Interest Rates	$ (95,900)	9/18	$ 634
Currency Futures (z)	Currency	(8,250)	9/18	40
Total Futures				674
Forwards (0.01%)				
Short Forwards:				
Currency Forwards (ab)	Currency	(13,375)	9/18	69
Total Forwards				69
Total Financial Derivatives–Assets (Net cost $24,510)				$ 30,669
Financial Derivatives–Liabilities (-4.19%) (a) (b)				
Swaps (-4.15%)				
Long Swaps:				
Credit Default Swaps on Asset-Backed Indices (r)	Credit	$ 6,607	3/49 - 11/60	$ (963)
Interest Rate Swaps (s)	Interest Rates	293,281	11/18 - 10/24	(6,473)
North America				
Credit Default Swaps on Corporate Bonds (r)				
Communications	Credit	23,453	6/21 - 6/23	(2,474)
Consumer	Credit	8,331	3/20 - 6/23	(346)
Energy	Credit	9,882	6/20 - 6/23	(1,340)
Industrial	Credit	6,640	6/23	(306)
Technology	Credit	980	12/22 - 6/23	(110)
Total Credit Default Swaps on Corporate Bonds				(4,576)
Total Return Swaps (v)				
Communications	Credit	59	7/19	—
Total Total Return Swaps				—
Recovery Swaps (w)				
Consumer	Credit	2,600	6/19	(8)
Total Recovery Swaps				(8)

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ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT JUNE 30, 2018 (CONTINUED)
(UNAUDITED)

(In thousands)	Primary Risk Exposure	Notional Value	Range of Expiration Dates	Fair Value
				Expressed in U.S.Dollars
Short Swaps:				
Interest Rate Swaps (u)	Interest Rates	$ (30,000)	5/20 - 6/20	$ (15)
Interest Rate Basis Swaps (aa)	Interest Rates	(12,900)	6/19	(2)
Credit Default Swaps on Corporate Bond Indices (t)	Credit	(216,162)	6/19 - 6/23	(7,234)
Total Return Swaps (ac)	Credit	(56,140)	12/18	(314)
North America				
Credit Default Swaps on Corporate Bonds (t)				
Basic Materials	Credit	(12,660)	6/19 - 12/22	(933)
Communications	Credit	(22,920)	12/18 - 6/23	(907)
Consumer	Credit	(57,110)	12/18 - 6/23	(3,426)
Energy	Credit	(15,402)	12/18 - 6/23	(315)
Financial	Credit	(355)	9/22	(54)
Industrial	Credit	(16,180)	6/21 - 6/23	(180)
Technology	Credit	(3,655)	3/19 - 12/19	(10)
Utilities	Credit	(1,100)	6/19	(52)
Total Credit Default Swaps on Corporate Bonds				(5,877)
Total Swaps (Net proceeds -$18,294)				(25,462)
Futures (-0.03%)				
Short Futures:				
Currency Futures (z)	Currency	(29,875)	9/18	(155)
Total Futures				(155)
Forwards (-0.01%)				
Short Forwards:				
Currency Forwards (ab)	Currency	(12,120)	9/18	(58)
Total Forwards				(58)
Total Financial Derivatives–Liabilities (Net proceeds -$18,294)				$ (25,675)

See Notes to Consolidated Financial Statements

ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT JUNE 30, 2018 (CONTINUED)
(UNAUDITED)

(a) See Note 2 and Note 3 in Notes to Consolidated Financial Statements.

(b) Classification percentages are based on Total Equity.

(c) At June 30, 2018, the Company's long investments guaranteed by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, and the Government National Mortgage Association, represented 89.40%, 46.63%, and 70.33% of Total Equity, respectively.

(d) Private trust 100% backed by interest in Government National Mortgage Association collateralized mortgage obligation certificates.

(e) Includes investment in collateralized loan obligation notes in the amount of $57.5 million that were issued and are managed by related parties of the Company. See Note 9 to the Notes to Consolidated Financial Statements.

(f) Loans and real estate owned are beneficially owned by the Company through participation certificates in the various trusts that hold such investments. See Note 9 to the Notes to Consolidated Financial Statements.

(g) Includes investments in participation certificates related to loans titled in the name of a related party of Ellington Management Group, L.L.C. Through its participation certificates, the Company has beneficial interests in the loan cash flows, net of servicing-related fees and expenses. At June 30, 2018 loans for which the Company has beneficial interests in the net cash flows, totaled $18.2 million. See Note 9 to the Notes to Consolidated Financial Statements.

(h) Includes investments in participation certificates related to loans held in a trust owned by a related party of Ellington Management Group, L.L.C. Through its participation certificates, the Company participates in the cash flows of the underlying loans held by the trust. At June 30, 2018 loans held in the related party trust for which the Company has participating interests in the cash flows, totaled $168.5 million. See Note 9 to the Notes to Consolidated Financial Statements.

(i) Represents the Company's beneficial interest in an entity, which is co-owned by an affiliate of Ellington Management Group, L.L.C. The entity owns subordinated notes issued by, as well as trust certificates representing ownership of, a securitization trust. See Note 6 and Note 9 to the Notes to Consolidated Financial Statements.

(j) Includes non-performing commercial mortgage loans in the amount of $6.8 million whereby principal and/or interest is past due and a maturity date is not applicable.

(k) As of June 30, 2018, the Company had residential mortgage loans that were in the process of foreclosure with a fair value of $7.5 million.

(l) Number of properties not shown in thousands, represents actual number of properties owned.

(m) Includes $107.9 million of non-qualified mortgage loans that have been securitized and are held in a consolidated securitization trust. See Note 6 to the Notes to Consolidated Financial Statements.

(n) Represents the Company's investment in a related party. See Note 9 to the Notes to Consolidated Financial Statements.

(o) In general, securities received pursuant to repurchase agreements were delivered to counterparties in short sale transactions.

(p) Repurchase agreement is between the Company and CILO 2016-LD1 Holdings LLC, an entity in which the Company has a beneficial interest and is co-owned by an affiliate of Ellington Management Group, L.L.C. CILO 2016-LD1 Holdings LLC owns subordinated notes issued by, as well as trust certificates representing ownership of, a securitization trust. See Note 9 to the Notes to Consolidated Financial Statements.

(q) At June 30, 2018, the Company's short investments guaranteed by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, and the Government National Mortgage Association, represented 40.02%, 24.94%, and 35.92% of Total Equity, respectively.

(r) For long credit default swaps, the Company sold protection.

(s) For long interest rate swap contracts, the Company pays a floating rate and receives a fixed rate.

(t) For short credit default swaps, the Company purchased protection.

(u) For short interest rate swap contracts, the Company pays a fixed rate and receives a floating rate.
(v) Notional value represents number of underlying shares multiplied by the closing price of the underlying security.
(w) For long recovery swaps the Company receives a specified recovery rate in exchange for the actual recovery rate on the underlying.
(x) Notional value represents the amount on which interest payments are calculated to the extent the market interest rate exceeds the rate cap on the contract.
(y) Notional value represents the total face amount of U.S. Treasury securities underlying all contracts held. As of June 30, 2018, a total of 959 contracts were held.
(z) Notional value represents the total face amount of foreign currency underlying all contracts held; as of June 30, 2018, 371 contracts were held.
(aa) Represents interest rate "basis" swaps whereby the Company pays one floating rate and receives a different floating rate.
(ab) Notional value represents U.S. Dollars to be received by the Company at the maturity of the forward contract.
(ac) Notional value represents the number of underlying index units multiplied by the reference price.

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ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
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(ad) The table below shows the Company's long investment ratings from Moody's, Standard and Poor's, or Fitch, as well as the Company's long investments that were unrated but guaranteed by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, or the Government National Mortgage Association. Ratings tend to be a lagging credit indicator; as a result, the credit quality of the Company's long investment holdings may be lower than the credit quality implied based on the ratings listed below. In situations where an investment has a split rating, the lowest provided rating is used. The ratings descriptions include ratings qualified with a "+," "-," "1," "2," or "3."

Rating Description	Percent of Equity
Unrated but Agency-Guaranteed	206.36%
Aaa/AAA/AAA	11.52 %
Aa/AA/AA	0.85 %
A/A/A	1.04 %
Baa/BBB/BBB	4.71 %
Ba/BB/BB or below	67.62 %
Unrated	136.01%

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ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2017
(UNAUDITED)

Current Principal/Number of Shares	Description	Rate	Maturity	Fair Value
(In thousands)				Expressed in U.S. Dollars
Cash Equivalents—Money Market Funds (4.27%) (a) (b)				
North America				
Funds				
$26,500	Various	1.17%		$ 26,500
Total Cash Equivalents—Money Market Funds (Cost $26,500)				$ 26,500
Long Investments (333.63%) (a) (b) (ad)				
Mortgage-Backed Securities (208.70%)				
Agency Securities (160.32%) (c)				
Fixed-rate Agency Securities (145.75%)				
Principal and Interest–Fixed-Rate Agency Securities (123.80%)				
North America				
Mortgage-related—Residential				
$130,885	Federal National Mortgage Association Pools (30 Year)	4.00%	9/39 - 11/47	$138,033
115,008	Federal Home Loan Mortgage Corporation Pools (30 Year)	4.00%	11/41 - 12/47	121,154
77,724	Federal National Mortgage Association Pools (30 Year)	3.50%	9/42 - 12/47	80,245
60,698	Federal National Mortgage Association Pools (30 Year)	4.50%	10/41 - 12/47	65,178
51,851	Federal National Mortgage Association Pools (15 Year)	3.50%	3/28 - 3/32	53,894
47,555	Federal Home Loan Mortgage Corporation Pools (30 Year)	4.50%	9/43 - 12/47	50,980
42,239	Government National Mortgage Association Pools (30 Year)	4.00%	7/45 - 12/47	44,414
33,982	Government National Mortgage Association Pools (30 Year)	3.50%	7/45 - 12/47	35,235
32,061	Federal National Mortgage Association Pools (30 Year)	5.00%	10/35 - 12/44	34,664
23,002	Federal Home Loan Mortgage Corporation Pools (30 Year)	3.50%	1/42 - 9/47	23,753
21,561	Government National Mortgage Association Pools (30 Year)	4.50%	9/46 - 12/47	22,924
20,544	Federal National Mortgage Association Pools (15 Year)	3.00%	4/30 - 9/32	20,986
9,405	Federal Home Loan Mortgage Corporation Pools (15 Year)	3.50%	9/28 - 12/32	9,764
8,960	Federal Home Loan Mortgage Corporation Pools (Other)	3.50%	2/30 - 9/46	9,221
8,156	Federal National Mortgage Association Pools (15 Year)	4.00%	6/26 - 5/31	8,562
5,410	Federal National Mortgage Association Pools (Other)	5.00%	9/43 - 1/44	5,888
4,981	Federal National Mortgage Association Pools (Other)	4.00%	6/37 - 12/47	5,159
3,833	Federal Home Loan Mortgage Corporation Pools (15 Year)	3.00%	4/30 - 9/32	3,912
3,579	Federal Home Loan Mortgage Corporation Pools (30 Year)	3.00%	7/43 - 10/45	3,587
3,519	Government National Mortgage Association Pools (30 Year)	3.00%	11/42 - 12/42	3,547
2,906	Government National Mortgage Association Pools (30 Year)	3.75%	7/47	3,025
2,877	Federal National Mortgage Association Pools (Other)	4.50%	5/41	3,021

2,794	Federal National Mortgage Association Pools (15 Year)	4.50%	4/26	2,973
2,671	Federal Home Loan Mortgage Corporation Pools (Other)	4.50%	5/44	2,875
2,791	Federal National Mortgage Association Pools (30 Year)	3.00%	1/42 - 6/45	2,804
2,335	Federal National Mortgage Association Pools (30 Year)	5.50%	10/39	2,569
1,633	Federal National Mortgage Association Pools (20 Year)	4.00%	12/33	1,728
1,463	Federal Home Loan Mortgage Corporation Pools (15 Year)	4.00%	2/29	1,531
1,207	Federal National Mortgage Association Pools (30 Year)	6.00%	9/39 - 2/40	1,360
1,175	Federal Home Loan Mortgage Corporation Pools (Other)	3.00%	6/28 - 3/30	1,193
1,023	Federal Home Loan Mortgage Corporation Pools (20 Year)	4.50%	12/33	1,099

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ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2017 (CONTINUED)
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Current Principal/Notional Value	Description	Rate	Maturity	Fair Value
(In thousands)				Expressed in U.S. Dollars
(continued)				
$864	Federal Home Loan Mortgage Corporation Pools (30 Year)	6.00%	5/40	$ 969
644	Government National Mortgage Association Pools (Other)	3.50%	10/30 - 2/32	647
516	Federal Home Loan Mortgage Corporation Pools (30 Year)	5.50%	8/33 - 11/38	565
488	Federal Home Loan Mortgage Corporation Pools (30 Year)	5.00%	7/44	526
492	Federal National Mortgage Association Pools (Other)	3.50%	4/26	504
150	Government National Mortgage Association Pools (Other)	3.00%	6/30	150
112	Federal National Mortgage Association Pools (30 Year)	3.28%	6/42	112
				768,751
Interest Only–Fixed-Rate Agency Securities (2.03%)				
North America				
Mortgage-related—Residential				
21,942	Government National Mortgage Association	4.00%	2/45 - 6/45	3,686
5,867	Government National Mortgage Association	6.00%	6/38 - 8/39	1,173
6,286	Federal National Mortgage Association	4.50%	12/20 - 6/44	928
5,437	Government National Mortgage Association	4.50%	2/41 - 7/44	914
4,116	Federal National Mortgage Association	5.50%	10/39	907
4,660	Government National Mortgage Association	5.50%	11/43	801
4,350	Federal Home Loan Mortgage Corporation	3.50%	12/32	628
7,145	Federal Home Loan Mortgage Corporation	5.00%	11/38	598
4,185	Federal National Mortgage Association	4.00%	5/39 - 11/43	521
5,074	Federal Home Loan Mortgage Corporation	5.50%	1/39 - 9/39	494
4,100	Federal National Mortgage Association	5.00%	1/38 - 5/40	493
2,038	Federal National Mortgage Association	6.00%	1/40	371
74,967	Government National Mortgage Association	0.26%	6/40	352
1,699	Federal Home Loan Mortgage Corporation	4.50%	7/43	256
2,677	Federal National Mortgage Association	3.00%	9/41	247
1,000	Government National Mortgage Association	4.75%	7/40	178
1,168	Government National Mortgage Association	5.00%	5/37	47
				12,594
TBA–Fixed-Rate Agency Securities (19.92%)				
North America				
Mortgage-related—Residential				
42,884	Government National Mortgage Association (30 Year)	4.00%	1/18	44,738
35,719	Government National Mortgage Association (30 Year)	4.50%	1/18	37,504
27,340	Federal Home Loan Mortgage Corporation (30 Year)	3.50%	1/18	28,085
9,403	Federal National Mortgage Association (30 Year)	4.00%	1/18	9,835
2,100	Government National Mortgage Association (30 Year)	3.00%	1/18	2,119
890	Government National Mortgage Association (30 Year)	3.50%	1/18	920
470	Federal Home Loan Mortgage Corporation (15 Year)	3.00%	1/18	479
				123,680

Total Fixed-Rate Agency Securities (Cost $911,909)	905,025

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ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2017 (CONTINUED)
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Current Principal /Notional Value (In thousands)	Description	Rate	Maturity	Fair Value Expressed in U.S. Dollars
Floating Rate Agency Securities (14.57%)				
Principal and Interest–Floating Rate Agency Securities (11.10%)				
North America				
Mortgage-related—Residential				
$56,137	Government National Mortgage Association Pools	3.59% - 4.68%	7/61 - 10/67	$ 60,866
4,806	Federal National Mortgage Association Pools	2.79% - 3.69%	9/35 - 5/45	4,999
2,963	Federal Home Loan Mortgage Corporation Pools	3.49% - 4.80%	6/37 - 5/44	3,068
				68,933
Interest Only–Floating Rate Agency Securities (3.47%)				
North America				
Mortgage-related—Residential				
313,840	Other Government National Mortgage Association	0.41% - 5.31%	3/37 - 10/66	16,248
30,729	Other Federal National Mortgage Association	4.30% - 6.00%	6/33 - 12/41	3,506
11,211	Other Federal Home Loan Mortgage Corporation	4.52% - 5.15%	3/36 - 4/40	1,436
10,619	Resecuritization of Government National Mortgage Association (d)	3.25%	8/60	366
				21,556
Total Floating Rate Agency Securities (Cost $91,413)				90,489
Total Agency Securities (Cost $1,003,322)				995,514
Private Label Securities (48.38%)				
Principal and Interest–Private Label Securities (47.12%)				
North America (29.16%)				
Mortgage-related—Residential				
232,771	Various	0.00% - 30.29%	5/19 - 9/46	154,887
Mortgage-related—Commercial				
80,114	Various	2.05% - 4.41%	8/35 - 9/58	26,155
Total North America (Cost $172,285)				181,042
Europe (17.96%)				
Mortgage-related—Residential				
127,469	Various	0.00% - 5.50%	6/25 - 1/61	99,923
Mortgage-related—Commercial				
23,752	Various	0.37% - 5.03%	10/20 - 2/41	11,601
Total Europe (Cost $106,518)				111,524
Total Principal and Interest–Private Label Securities (Cost $278,803)				292,566
Interest Only–Private Label Securities (1.26%)				
North America				
Mortgage-related—Residential				
36,008	Various	0.00% - 2.00%	12/30 - 9/47	4,856
Mortgage-related—Commercial				

39,871	Various	1.25% - 2.00%	3/49 - 12/49	2,989
Total Interest Only–Private Label Securities (Cost $5,334)				7,845

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ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2017 (CONTINUED)
(UNAUDITED)

Current Principal /Notional Value	Description	Rate	Maturity	Fair Value
(In thousands)				Expressed in U.S. Dollars
Other Private Label Securities (0.00%)				
North America				
Mortgage-related—Residential				
$79,487	Various	—%	6/37	$ —
Mortgage-related—Commercial				
—	Various	—%	7/45 - 12/49	—
Total Other Private Label Securities (Cost $215)				—
Total Private Label Securities (Cost $284,352)				300,411
Total Mortgage-Backed Securities (Cost $1,287,674)				1,295,925
Collateralized Loan Obligations (33.95%)				
North America (27.40%) (e)				
278,601	Various	0.00% - 10.04%	1/18 - 11/57	170,123
Total North America (Cost $174,635)				170,123
Europe (6.55%)				
42,101	Various	0.00% - 7.95%	4/22 - 1/27	40,693
Total Europe (Cost $38,363)				40,693
Total Collateralized Loan Obligations (Cost $212,998)				210,816
Consumer Loans and Asset-backed Securities backed by Consumer Loans (21.78%) (f)				
North America (21.34%)				
Consumer (g) (h)				

151,753	Various	5.31% - 76.28%	1/18 - 9/22	132,509
Total North America (Cost $138,312)				132,509
Europe (0.44%)				
Consumer				
3,711	Various	—%	8/24 - 12/30	2,749
Total Europe (Cost $1,075)				2,749
Total Consumer Loans and Asset-backed Securities backed by Consumer Loans (Cost $139,387)				135,258

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ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2017 (CONTINUED)
(UNAUDITED)

Current Principal/Number of Properties	Description	Rate	Maturity	Fair Value
(In thousands)				Expressed in U.S. Dollars
Corporate Debt (12.11%)				
North America (9.76%)				
Basic Materials				
$6,025	Various	6.88% - 7.00%	8/25 - 3/27	$ 6,254
Communications				
8,490	Various	3.40% - 11.57%	4/20 - 8/27	8,523
Consumer				
21,993	Various	2.60% - 9.73%	1/19 - 12/34	23,043
Energy				
9,665	Various	4.50% - 9.63%	3/19 - 8/25	10,266
Financial				
560	Various	5.13%	9/24	606
Industrial				
2,250	Various	3.75%	12/21	2,286
Mortgage-related—Residential (n)				
5,429	Various	15.00%	10/19	5,429
Technology				
4,300	Various	3.63% - 7.50%	10/21 - 8/22	4,211
Total North America (Cost $60,640)				60,618
Europe (2.35%)				
Consumer				
20,070	Various	—%	3/18	50
Financial				
13,725	Various	0.00% - 15.67%	10/20 - 11/22	13,437
Industrial				
1,145	Various	1.59%	3/21	1,088
Total Europe (Cost $15,312)				14,575
Total Corporate Debt (Cost $75,952)				75,193
Mortgage Loans (46.83%) (f)				
North America				
Mortgage-related—Commercial (j)				
116,707	Various	3.14% - 12.87%	2/18 - 10/37	108,301
Mortgage-related—Residential (l) (m)				
181,553	Various	2.00% - 12.63%	4/22 - 4/57	182,472
				290,773

Total Mortgage Loans (Cost $288,034)		
Real Estate Owned (4.23%) (f) (k)		
North America		
Real estate-related		
3	Single-Family Houses	591
9	Commercial Properties	25,686
Total Real Estate Owned (Cost $26,146)		26,277

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ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2017 (CONTINUED)
(UNAUDITED)

Number of Shares	Description	Rate	Maturity	Fair Value
(In thousands)				Expressed in U.S. Dollars
	Corporate Equity Investments (6.03%)			
	North America (6.03%)			
	Asset-Backed Securities			
n/a	Non-Controlling Equity Interest in Limited Liability Company (i)			$ 5,033
	Communications			
7	Non-Exchange Traded Corporate Equity			557
	Consumer			
n/a	Non-Controlling Equity Interest in Limited Liability Company (i)			5,693
1,540	Non-Exchange Traded Corporate Equity			5
	Diversified			
156	Non-Exchange Traded Corporate Equity			2,585
	Mortgage-related—Residential (n)			
20	Non-Exchange Traded Preferred Equity Investment in Mortgage Originators			20,774
9,818	Non-Exchange Traded Common Equity Investment in Mortgage Originators			2,814
	Total North America (Cost $41,559)			37,461
	Europe (0.00%)			
	Consumer			
125	Non-Exchange Traded Corporate Equity			—
	Financial			
—	Non-Exchange Traded Corporate Equity			4
	Total Europe (Cost $4)			4
	Total Corporate Equity Investments (Cost $41,563)			37,465
	Total Long Investments (Cost $2,071,754)			$ 2,071,707

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ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2017 (CONTINUED)
(UNAUDITED)

Current Principal (In thousands)	Description	Rate	Maturity	Fair Value Expressed in U.S. Dollars
	Repurchase Agreements (25.11%) (a) (b) (o)			
$30,310	Bank of America Securities Collateralized by Par Value $30,501 U.S. Treasury Note, Coupon 2.25% Maturity Date 2/27	1.45%	1/18	$ 30,310
16,578	Barclays Capital Inc Collateralized by Par Value $16,516 Sovereign Government Bond, Coupon 0.25% Maturity Date 4/18	(0.57)%	1/18	16,578
14,548	Barclays Capital Inc Collateralized by Par Value $14,228 Sovereign Government Bond, Coupon 0.25% Maturity Date 11/20	(0.62)%	1/18	14,548
13,965	Bank of America Securities Collateralized by Par Value $14,000 U.S. Treasury Note, Coupon 1.88% Maturity Date 12/20	1.00%	1/18	13,965
10,760	Barclays Capital Inc Collateralized by Par Value $10,447 Sovereign Government Bond, Coupon 0.75% Maturity Date 7/21	(0.65)%	1/18	10,760
10,043	Barclays Capital Inc Collateralized by Par Value $9,474 Sovereign Government Bond, Coupon 2.75% Maturity Date 4/19	(0.57)%	1/18	10,043
9,764	Barclays Capital Inc Collateralized by Par Value $9,400 Sovereign Government Bond, Coupon 1.15% Maturity Date 7/20	(0.57)%	1/18	9,764
9,588	Barclays Capital Inc Collateralized by Par Value $9,400 Sovereign Government Bond, Coupon 0.65% Maturity Date 11/20	(0.58)%	1/18	9,588
5,895	Bank of America Securities Collateralized by Par Value $6,000 U.S. Treasury Note, Coupon 1.75% Maturity Date 5/22	1.45%	1/18	5,895
5,707	CILO 2016-LD1 Holdings LLC (p) Collateralized by Par Value $9,512 Exchange-Traded Debt, Coupon 5.50%, Maturity Date 7/22	3.34%	3/18	5,707
4,921	Barclays Capital Inc	(2.00)%	1/18	4,921

Collateralized by Par Value $4,720
Exchange-Traded Corporate Debt, Coupon 5.88%
Maturity Date 10/20

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ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2017 (CONTINUED)
(UNAUDITED)

Current Principal (In thousands) (continued)	Description	Rate	Maturity	Fair Value Expressed in U.S. Dollars
$3,122	RBC Capital Markets LLC Collateralized by Par Value $3,860 Exchange-Traded Corporate Debt, Coupon 10.50% Maturity Date 9/22	1.05%	1/18	$ 3,122
2,790	CS First Boston Collateralized by Par Value $2,794 Exchange-Traded Corporate Debt, Coupon 8.00% Maturity Date 6/27	(1.00)%	1/18	2,790
2,192	Bank of America Securities Collateralized by Par Value $2,223 U.S. Treasury Note, Coupon 2.25% Maturity Date 11/27	0.45%	1/18	2,192
2,164	Societe Generale Collateralized by Par Value $2,560 Exchange-Traded Corporate Debt, Coupon 10.50% Maturity Date 9/22	1.10%	1/18	2,164
2,151	JP Morgan Securities LLC Collateralized by Par Value $2,170 Exchange-Traded Corporate Debt, Coupon 4.88% Maturity Date 4/22	(2.75)%	1/18	2,151
1,979	Barclays Capital Inc Collateralized by Par Value $1,850 Exchange-Traded Corporate Debt, Coupon 7.50% Maturity Date 4/24	(0.25)%	1/18	1,979
1,320	RBC Capital Markets LLC Collateralized by Par Value $1,300 Exchange-Traded Corporate Debt, Coupon 8.25% Maturity Date 6/23	0.65%	1/18	1,320
1,283	Barclays Capital Inc Collateralized by Par Value $1,285 Exchange-Traded Corporate Debt, Coupon 6.75% Maturity Date 6/23	(2.00)%	1/18	1,283
1,079	RBC Capital Markets LLC Collateralized by Par Value $1,110 Exchange-Traded Corporate Debt, Coupon 6.75% Maturity Date 6/23	(2.25)%	1/18	1,079
890	RBC Capital Markets LLC Collateralized by Par Value $970 Exchange-Traded Corporate Debt, Coupon 5.50% Maturity Date 10/24	(4.50)%	1/18	890
737	RBC Capital Markets LLC	(5.75)%	1/18	737

Collateralized by Par Value $766
Exchange-Traded Corporate Debt, Coupon 6.25%
Maturity Date 10/22

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ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2017 (CONTINUED)
(UNAUDITED)

Current Principal (In thousands) (continued)	Description	Rate	Maturity	Fair Value Expressed in U.S. Dollars
$655	RBC Capital Markets LLC Collateralized by Par Value $591 Exchange-Traded Corporate Debt, Coupon 8.00% Maturity Date 12/22	0.75%	1/18	$ 655
613	JP Morgan Securities LLC Collateralized by Par Value $615 U.S. Treasury Note, Coupon 2.00% Maturity Date 11/22	0.30%	1/18	613
580	RBC Capital Markets LLC Collateralized by Par Value $581 Exchange-Traded Corporate Debt, Coupon 8.00% Maturity Date 6/27	(1.25)%	1/18	580
523	RBC Capital Markets LLC Collateralized by Par Value $500 Exchange-Traded Corporate Debt, Coupon 5.75% Maturity Date 10/22	1.05%	1/18	523
447	CS First Boston Collateralized by Par Value $464 Exchange-Traded Corporate Debt, Coupon 6.25% Maturity Date 10/22	(5.00)%	1/18	447
414	RBC Capital Markets LLC Collateralized by Par Value $400 Exchange-Traded Corporate Debt, Coupon 5.25% Maturity Date 3/22	0.95%	1/18	414
282	CS First Boston Collateralized by Par Value $310 Exchange-Traded Corporate Debt, Coupon 5.50% Maturity Date 10/24	(4.00)%	1/18	282
255	Bank of America Securities Collateralized by Par Value $281 U.S. Treasury Bond, Coupon 2.25% Maturity Date 8/46	1.45%	1/18	255
243	Barclays Capital Inc Collateralized by Par Value $250 Exchange-Traded Corporate Debt, Coupon 4.50% Maturity Date 4/22	(1.75)%	1/18	243
151	RBC Capital Markets LLC Collateralized by Par Value $160 Exchange-Traded Corporate Debt, Coupon 2.88% Maturity Date 2/23	0.50%	1/18	151
Total Repurchase Agreements (Cost $155,109)				$ 155,949

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ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2017 (CONTINUED)
(UNAUDITED)

Current Principal (In thousands)	Description	Rate	Maturity	Fair Value Expressed in U.S. Dollars
Investments Sold Short (-103.43%) (a) (b)				
TBA–Fixed Rate Agency Securities Sold Short (-74.11%) (q)				
North America				
Government				
$(69,372)	Federal National Mortgage Association (30 year)	3.50%	1/18	$ (71,247)
(68,000)	Federal Home Loan Mortgage Corporation (30 year)	4.00%	2/18	(71,028)
(55,000)	Federal National Mortgage Association (30 year)	4.00%	2/18	(57,447)
(43,220)	Federal National Mortgage Association (15 year)	3.50%	1/18	(44,618)
(35,000)	Government National Mortgage Association (30 year)	4.00%	2/18	(36,485)
(31,000)	Federal National Mortgage Association (30 year)	4.50%	2/18	(32,942)
(27,547)	Federal Home Loan Mortgage Corporation (30 year)	4.00%	1/18	(28,815)
(24,410)	Government National Mortgage Association (30 year)	3.50%	1/18	(25,249)
(21,710)	Federal National Mortgage Association (30 year)	4.50%	1/18	(23,097)
(21,520)	Federal National Mortgage Association (15 year)	3.00%	1/18	(21,923)
(12,351)	Federal Home Loan Mortgage Corporation (30 year)	4.50%	1/18	(13,134)
(12,112)	Federal National Mortgage Association (30 year)	3.00%	1/18	(12,113)
(6,860)	Federal National Mortgage Association (30 year)	5.50%	1/18	(7,520)
(5,680)	Federal National Mortgage Association (30 year)	5.00%	1/18	(6,104)
(5,515)	Federal Home Loan Mortgage Corporation (30 year)	3.00%	1/18	(5,517)
(1,800)	Government National Mortgage Association (30 year)	3.00%	1/18	(1,813)
(1,100)	Federal Home Loan Mortgage Corporation (15 year)	3.50%	1/18	(1,137)
Total TBA–Fixed Rate Agency Securities Sold Short (Proceeds -$459,953)				(460,189)
Government Debt Sold Short (-14.52%)				
North America (-8.54%)				
Government				
(30,501)	U.S. Treasury Note	2.25%	2/27	(30,108)
(14,000)	U.S. Treasury Note	1.88%	12/20	(13,961)
(6,000)	U.S. Treasury Note	1.75%	5/22	(5,896)
(2,223)	U.S. Treasury Note	2.25%	11/27	(2,192)
(615)	U.S. Treasury Note	2.00%	11/22	(610)
(281)	U.S. Treasury Bond	2.25%	8/46	(254)
Total North America (Proceeds -$53,322)				(53,021)

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ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2017 (CONTINUED)
(UNAUDITED)

Current Principal/Number of Shares	Description	Rate	Maturity	Fair Value
(In thousands)				Expressed in U.S. Dollars
Europe (-5.98%)				
Government				
$(16,516)	Spanish Sovereign Bond	0.25%	4/18	$ (16,556)
(10,447)	Spanish Sovereign Bond	0.75%	7/21	(10,704)
(9,474)	Spanish Sovereign Bond	2.75%	4/19	(9,868)
Total Europe (Proceeds -$35,149)				(37,128)
Total Government Debt Sold Short (Proceeds -$88,471)				(90,149)
Corporate Debt Sold Short (-8.89%)				
North America				
Communications				
(18,590)	Various	4.13% - 10.50%	7/22 - 3/27	(17,196)
Consumer				
(23,805)	Various	2.88% - 6.75%	10/20 - 5/26	(23,854)
Energy				
(13,311)	Various	3.25% - 8.25%	4/22 - 6/27	(12,834)
Financial				
(960)	Various	5.13% -5.25%	3/22 - 9/24	(1,019)
Technology				
(330)	Various	3.63%	10/21	(308)
Total Corporate Debt Sold Short (Proceeds -$55,112)				(55,211)
Common Stock Sold Short (-5.91%)				
North America				
Energy				
(1)	Exchange-Traded Equity			(68)
Financial				
(671)	Exchange-Traded Equity			(36,623)
Total Common Stock Sold Short (Proceeds -$36,666)				(36,691)
Total Investments Sold Short (Proceeds -$640,202)				$ (642,240)

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ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2017 (CONTINUED)
(UNAUDITED)

(In thousands)	Primary Risk Exposure	Notional Value	Range of Expiration Dates	Fair Value Expressed in U.S. Dollars
Financial Derivatives–Assets (4.54%) (a) (b)				
Swaps (4.53%)				
Long Swaps:				
Credit Default Swaps on Corporate Bond Indices (r)	Credit	$25,338	12/18 - 12/22	$ 1,429
Interest Rate Swaps (s)	Interest Rates	79,347	3/18 - 12/25	969
Credit Default Swaps on Asset-Backed Indices (r)	Credit	885	12/37	9
North America				
Credit Default Swaps on Corporate Bonds (r)				
Basic Materials	Credit	2,070	12/21 - 12/22	228
Communications	Credit	10,165	6/20 - 12/22	475
Consumer	Credit	41,725	3/19 - 12/22	2,525
Energy	Credit	8,250	6/19 - 6/22	99
Financial	Credit	1,180	12/21	194
Utilities	Credit	3,150	12/21 - 6/22	392
Total Credit Default Swaps on Corporate Bonds				3,913
Short Swaps:				
Credit Default Swaps on Asset-Backed Indices (t)	Credit	(28,733)	5/46 - 11/59	5,384
Interest Rate Swaps (u)	Interest Rates	(866,398)	2/18 - 11/30	8,277
Interest Rate Basis Swaps (ab)	Interest Rates	(26,600)	4/18 - 6/19	20
Total Return Swaps				
Financial (v)	Equity Market	(10,317)	7/19	—
Total Total Return Swaps				—
North America				
Credit Default Swaps on Asset-Backed Securities (t)				
Mortgage-related—residential	Credit	(5,688)	5/35 - 12/35	3,140
Total Credit Default Swaps on Asset-Backed Securities				3,140
Credit Default Swaps on Corporate Bonds (t)				
Basic Materials	Credit	(2,590)	6/21 - 6/22	77
Communications	Credit	(21,975)	12/18 - 6/22	3,386
Consumer	Credit	(11,385)	12/18 - 12/22	211
Energy	Credit	(28,392)	6/18 - 12/22	849
Technology	Credit	(4,025)	12/21 - 6/22	452
Total Credit Default Swaps on Corporate Bonds				4,975
Total Swaps (Net cost $31,392)				28,116
Options (0.00%)				
Purchased Options:				
Interest Rate Caps (x)	Interest Rates	113,453	3/18 - 5/19	1
North America				
Equity Call Options (aa)				
Consumer	Equity Market	16	1/18	3

Total Options (Cost $82)	4

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ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
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(In thousands)	Primary Risk Exposure	Notional Value	Range of Expiration Dates	Fair Value Expressed in U.S. Dollars
Futures (0.01%)				
Short Futures				
U.S. Treasury Note Futures (y)	Interest Rates	$(6,800)	3/18	$ 45
Total Futures				45
Total Financial Derivatives–Assets (Net cost $31,474)				$ 28,165
Financial Derivatives–Liabilities (-5.84%) (a) (b)				
Swaps (-5.68%)				
Long Swaps:				
Credit Default Swaps on Asset-Backed Indices (r)	Credit	$6,827	3/49 - 5/63	$ (980)
Interest Rate Swaps (s)	Interest Rates	374,003	11/18 - 12/27	(5,852)
North America				
Credit Default Swaps on Corporate Bonds (r)				
Basic Materials	Credit	2,590	6/21 - 6/22	(77)
Communications	Credit	26,213	6/21 - 12/22	(5,974)
Consumer	Credit	12,561	6/20 - 12/22	(293)
Energy	Credit	33,654	6/21 - 12/22	(2,736)
Technology	Credit	380	12/22	(53)
Total Credit Default Swaps on Corporate Bonds				(9,133)
Total Return Swaps				
Financial (v)	Equity Market	235	7/19 - 5/22	—
Total Total Return Swaps				—
Recovery Swaps (w)				
Consumer	Credit	2,600	6/19	(8)
Total Recovery Swaps				(8)

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ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
AT DECEMBER 31, 2017 (CONTINUED)
(UNAUDITED)

(In thousands)	Primary Risk Exposure	Notional Value	Range of Expiration Dates	Fair Value
				Expressed in U.S. Dollars
Short Swaps:				
Interest Rate Swaps (u)	Interest Rates	$(59,246)	9/20 - 12/45	$ (163)
Credit Default Swaps on Corporate Bond Indices (t)	Credit	(267,034)	12/18 - 6/22	(12,367)
North America				
Credit Default Swaps on Corporate Bonds (t)				
Basic Materials	Credit	(12,285)	6/19 - 12/22	(1,075)
Communications	Credit	(7,243)	12/18 - 12/22	(304)
Consumer	Credit	(58,672)	6/18 - 12/22	(4,274)
Energy	Credit	(21,750)	6/18 - 6/22	(374)
Financial	Credit	—	6/22	—
Industrial	Credit	(4,410)	6/21 - 12/21	(86)
Technology	Credit	(2,020)	6/19 - 12/22	(181)
Utilities	Credit	(4,455)	6/19 - 12/22	(495)
Total Credit Default Swaps on Corporate Bonds				(6,789)
Total Swaps (Net proceeds -$27,463)				(35,292)
Futures (-0.08%)				
Short Futures:				
Currency Futures (z)	Currency	(27,000)	3/18	(508)
Total Futures				(508)
Forwards (-0.08%)				
Short Forwards:				
Currency Forwards (ac)	Currency	(42,306)	3/18	(473)
Total Forwards				(473)
Total Financial Derivatives–Liabilities (Net proceeds -$27,463)				$ (36,273)

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ELLINGTON FINANCIAL LLC
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
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(UNAUDITED)

(a) See Note 2 and Note 3 in Notes to Consolidated Financial Statements.
(b) Classification percentages are based on Total Equity.
(c) At December 31, 2017, the Company's long investments guaranteed by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, and the Government National Mortgage Association, represented 72.39%, 42.86%, and 45.07% of Total Equity, respectively.
(d) Private trust 100% backed by interest in Government National Mortgage Association collateralized mortgage obligation certificates.
(e) Includes investment in collateralized loan obligation notes in the amount of $37.7 million that were issued and are managed by related parties of the Company. See Note 9 to the Notes to Consolidated Financial Statements.
(f) Loans and real estate owned are beneficially owned by the Company through participation certificates in the various trusts that hold such investments. See Note 9 to the Notes to Consolidated Financial Statements.
(g) Includes investments in participation certificates related to loans titled in the name of a related party of Ellington Financial Management, LLC. Through its participation certificates, the Company has beneficial interests in the loan cash flows, net of servicing-related fees and expenses. At December 31, 2017 loans for which the Company has beneficial interests in the net cash flows, totaled $11.7 million. See Note 9 to the Notes to Consolidated Financial Statements.
(h) Includes investments in participation certificates related to loans held in a trust owned by a related party of Ellington Management Group, L.L.C. Through its participation certificates, the Company participates in the cash flows of the underlying loans held by the trust. At December 31, 2017 loans held in the related party trust for which the Company has participating interests in the cash flows, totaled $114.5 million. See Note 9 to the Notes to Consolidated Financial Statements.
(i) Represents the Company's beneficial interest in an entity, which is co-owned by an affiliate of Ellington Management Group, L.L.C. The entity owns subordinated notes issued by, as well as trust certificates representing ownership of, a securitization trust. See Note 6 and Note 9 to the Notes to Consolidated Financial Statements.
(j) Includes non-performing commercial mortgage loans in the amount of $23.9 million whereby principal and/or interest is past due and a maturity date is not applicable.
(k) Number of properties not shown in thousands, represents actual number of properties owned.
(l) As of December 31, 2017, the Company had residential mortgage loans that were in the process of foreclosure with a fair value of $5.2 million.
(m) Includes $132.4 million of non-qualified mortgage loans that have been securitized and are held in a consolidated securitization trust. See Note 6 to the Notes to Consolidated Financial Statements.
(n) Represents the Company's investment in a related party. See Note 9 to the Notes to Consolidated Financial Statements.
(o) In general, securities received pursuant to repurchase agreements were delivered to counterparties in short sale transactions.
(p) Repurchase agreement is between the Company and CILO 2016-LD1 Holdings LLC, an entity in which the Company has a beneficial interest and is co-owned by an affiliate of Ellington Management Group, L.L.C. CILO 2016-LD1 Holdings LLC owns subordinated notes issued by, as well as trust certificates representing ownership of, a securitization trust. See Note 9 to the Notes to Consolidated Financial Statements.
(q) At December 31, 2017, the Company's short investments guaranteed by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, and the Government National Mortgage Association, represented 44.61%, 19.27%, and 10.23% of Total Equity, respectively.
(r) For long credit default swaps, the Company sold protection.
(s) For long interest rate swap contracts, the Company pays a floating rate and receives a fixed rate.
(t) For short credit default swaps, the Company purchased protection.

(u) For short interest rate swap contracts, the Company pays a fixed rate and receives a floating rate.
(v) Notional value represents number of underlying shares multiplied by the closing price of the underlying security.
(w) For long recovery swaps the Company receives a specified recovery rate in exchange for the actual recovery rate on the underlying.
(x) Notional value represents the amount on which interest payments are calculated to the extent the market interest rate exceeds the rate cap on the contract.
(y) Notional value represents the total face amount of U.S. Treasury Notes underlying all contracts held; as of December 31, 2017, 68 contracts were held.
(z) Notional value represents the total face amount of foreign currency underlying all contracts held; as of December 31, 2017, 216 contracts were held.
(aa) Notional value represents the number of common shares we have the option to purchase multiplied by the strike price.
(ab) Represents interest rate "basis" swaps whereby the Company pays one floating rate and receives a different floating rate.
(ac) Notional value represents U.S. Dollars to be received by the Company at the maturity of the forward contract.
(ad) The table below shows the ratings on the Company's long investments from Moody's, Standard and Poor's, or Fitch, as well as the Company's long investments that were unrated but guaranteed by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, or the Government National Mortgage Association. Ratings tend to be a lagging credit indicator; as a result, the credit quality of the Company's long investment holdings may be lower than the credit quality implied based on the ratings listed below. In situations where an investment has a split rating, the lowest provided rating is used. The ratings descriptions include ratings qualified with a "+," "-," "1," "2," or "3."

Rating Description	Percent of Equity	
Unrated but Agency-Guaranteed	160.32	%
A/A/A	0.81	%
Baa/BBB/BBB	2.62	%
Ba/BB/BB or below	68.03	%
Unrated	101.85	%

See Notes to Consolidated Financial Statements

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ELLINGTON FINANCIAL LLC
CONSOLIDATED STATEMENT OF OPERATIONS
(UNAUDITED)

	Three-Month Period Ended June 30,		Six-Month Period Ended June 30,	
	2018	2017	2018	2017
(In thousands except per share amounts)	Expressed in U.S. Dollars			
INVESTMENT INCOME				
Interest income(1)	$31,941	$21,788	$60,033	$44,674
Other income	1,094	872	1,811	1,811
Total investment income	33,035	22,660	61,844	46,485
EXPENSES				
Base management fee to affiliate (Net of fee rebates of $252, $0, $527, and $0, respectively)(2)	2,021	2,372	4,000	4,782
Incentive fee	291	—	291	—
Interest expense(1)	13,383	7,625	24,946	13,628
Other investment related expenses(3)				
Servicing expense	1,774	963	3,230	1,908
Other	1,997	1,095	3,493	1,671
Professional fees	857	697	1,504	1,379
Administration fees	184	180	363	362
Compensation expense	657	567	1,167	1,030
Insurance expense	120	120	246	256
Directors' fees and expenses	67	70	139	141
Share-based long term incentive plan unit expense	99	95	192	189
Other expenses	594	444	1,039	932
Total expenses	22,044	14,228	40,610	26,278
NET INVESTMENT INCOME	10,991	8,432	21,234	20,207
NET REALIZED AND CHANGE IN NET UNREALIZED GAIN (LOSS) ON INVESTMENTS, FINANCIAL DERIVATIVES, AND FOREIGN CURRENCY TRANSACTIONS/TRANSLATION				
Net realized gain (loss) on:				
Investments	(388)	691	12,196	1,285
Financial derivatives, excluding currency hedges	(3,632)	(4,046)	(2,730)	(5,627)
Financial derivatives—currency hedges	3,787	(2,523)	1,584	(3,345)
Foreign currency transactions	(1,110)	531	658	1,509
	(1,343)	(5,347)	11,708	(6,178)
Change in net unrealized gain (loss) on:				
Investments	7,457	2,829	605	8,587
Other secured borrowings	414	—	1,198	—
Financial derivatives, excluding currency hedges	6,553	(2,619)	9,749	(3,776)
Financial derivatives—currency hedges	76	(1,194)	877	(864)
Foreign currency translation	(1,964)	3,340	(1,863)	3,195
	12,536	2,356	10,566	7,142
NET REALIZED AND CHANGE IN NET UNREALIZED GAIN (LOSS) ON INVESTMENTS, OTHER SECURED BORROWINGS, FINANCIAL DERIVATIVES, AND FOREIGN CURRENCY	11,193	(2,991)	22,274	964

TRANSACTIONS/TRANSLATION

See Notes to Consolidated Financial Statements

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ELLINGTON FINANCIAL LLC
CONSOLIDATED STATEMENT OF OPERATIONS (CONTINUED)
(UNAUDITED)

	Three-Month Period Ended June 30,		Six-Month Period Ended June 30,	
	2018	2017	2018	2017
	Expressed in U.S. Dollars			
NET INCREASE (DECREASE) IN EQUITY RESULTING FROM OPERATIONS	22,184	5,441	43,508	21,171
LESS: NET INCREASE (DECREASE) IN EQUITY RESULTING FROM OPERATIONS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	991	377	1,276	829
NET INCREASE (DECREASE) IN SHAREHOLDERS' EQUITY RESULTING FROM OPERATIONS	$21,193	$5,064	$42,232	$20,342
NET INCREASE (DECREASE) IN SHAREHOLDERS' EQUITY RESULTING FROM OPERATIONS PER SHARE:				
Basic and Diluted	$0.69	$0.16	$1.36	$0.62
CASH DIVIDENDS PER SHARE:				
Dividends declared	$0.41	$0.45	$0.82	$0.90

(1) Includes interest income and interest expense of a consolidated securitization trust of $1.3 million and $0.8 million, respectively, for the three-month period ended June 30, 2018. Includes interest income and interest expense of a consolidated securitization trust of $2.6 million and $1.7 million, respectively, for the six-month period ended June 30, 2018. See Note 6 for further details on the Company's consolidated securitization trust.

(2) See Note 9 for further details on management fee rebates.

(3) Conformed to current period presentation.

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ELLINGTON FINANCIAL LLC
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(UNAUDITED)

	Six-Month Period Ended June 30, 2018			Six-Month Period Ended June 30, 2017		
	Shareholders' Equity	Non-controlling Interest	Total Equity	Shareholders' Equity	Non-controlling Interest	Total Equity
(In thousands)	Expressed in U.S. Dollars					
BEGINNING EQUITY (12/31/2017 and 12/31/2016, respectively)	$600,099	$ 20,862	$620,961	$637,661	$ 7,116	$644,777
CHANGE IN EQUITY RESULTING FROM OPERATIONS						
Net investment income			21,234			20,207
Net realized gain (loss) on investments, financial derivatives, and foreign currency transactions			11,708			(6,178)
Change in net unrealized gain (loss) on investments, other secured borrowings, financial derivatives, and foreign currency translation			10,566			7,142
Net increase (decrease) in equity resulting from operations	42,232	1,276	43,508	20,342	829	21,171
CHANGE IN EQUITY RESULTING FROM TRANSACTIONS						
Contributions from non-controlling interests		2,165	2,165		11,321	11,321
Dividends(1)	(25,327)	(174)	(25,501)	(29,388)	(191)	(29,579)
Distributions to non-controlling interests		(10,457)	(10,457)		(8,050)	(8,050)
Adjustment to non-controlling interest	(35)	35	—	(4)	4	—
Shares repurchased	(17,593)		(17,593)	(2,868)		(2,868)
Share-based long term incentive plan unit awards	191	1	192	188	1	189
Net increase (decrease) in equity from transactions	(42,764)	(8,430)	(51,194)	(32,072)	3,085	(28,987)
Net increase (decrease) in equity	(532)	(7,154)	(7,686)	(11,730)	3,914	(7,816)
ENDING EQUITY (6/30/2018 and 6/30/2017, respectively)	$599,567	$ 13,708	$613,275	$625,931	$ 11,030	$636,961

(1) For the six-month periods ended June 30, 2018 and 2017, dividends totaling $0.82 and $0.90, respectively, per common share and convertible unit outstanding, were declared and paid.

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ELLINGTON FINANCIAL LLC
CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

(In thousands)	Six-Month Period Ended June 30, 2018	2017
	Expressed in U.S. Dollars	
INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH:		
NET INCREASE (DECREASE) IN EQUITY RESULTING FROM OPERATIONS	$43,508	$ 21,171
Cash flows provided by (used in) operating activities:		
Reconciliation of the net increase (decrease) in equity resulting from operations to net cash provided by (used in) operating activities:		
Net realized (gain) loss on investments, financial derivatives, and foreign currency transactions	(10,020)	9,370
Change in net unrealized (gain) loss on investments, other secured borrowings, financial derivatives, and foreign currency translation	(6,921)	(6,796)
Amortization of premiums and accretion of discounts (net)	22,949	15,618
Purchase of investments	(1,979,605)	(1,445,940)
Proceeds from disposition of investments	1,102,018	1,022,560
Proceeds from principal payments of investments	272,374	134,770
Proceeds from investments sold short	1,656,721	1,207,603
Repurchase of investments sold short	(1,404,952)	(1,116,008)
Payments on financial derivatives	(65,916)	(44,958)
Proceeds from financial derivatives	62,386	48,528
Amortization of deferred debt issuance costs	132	—
Share-based long term incentive plan unit expense	192	189
Interest income related to consolidated securitization trust(1)	(1,765)	—
Interest expense related to consolidated securitization trust(1)	1,765	—
Repurchase agreements	(58,462)	(81,840)
(Increase) decrease in assets:		
Receivable for securities sold and financial derivatives	(161,965)	(39,012)
Due from brokers	56,208	30,717
Interest and principal receivable	(2,781)	547
Other assets	19,371	(3,522)
Increase (decrease) in liabilities:		
Due to brokers	1,529	(8,882)
Payable for securities purchased and financial derivatives	228,321	139,361
Accounts payable and accrued expenses	220	669
Incentive fee payable	291	—
Other liabilities	(81)	102
Interest and dividends payable	887	517
Base management fee payable to affiliate	(92)	(45)
Net cash provided by (used in) operating activities	(223,688)	(115,281)

See Notes to Consolidated Financial Statements

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ELLINGTON FINANCIAL LLC
CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
(UNAUDITED)

(In thousands)	Six-Month Period Ended June 30, 2018	2017
	Expressed in U.S. Dollars	
Cash flows provided by (used in) financing activities:		
Contributions from non-controlling interests	$2,165	$11,321
Shares repurchased	(17,593)	(2,868)
Dividends paid	(25,501)	(29,579)
Distributions to non-controlling interests	(10,457)	(8,050)
Proceeds from issuance of Other secured borrowings	51,170	81,648
Principal payments on Other secured borrowings	(13,449)	(11,837)
Borrowings under reverse repurchase agreements	2,296,100	7,089,080
Repayments of reverse repurchase agreements	(2,083,909)	(7,003,423)
Net cash provided by (used in) financing activities	198,526	126,292
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(25,162)	11,011
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, BEGINNING OF PERIOD[2]	47,658	123,929
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, END OF PERIOD[2]	$22,496	$134,940
Supplemental disclosure of cash flow information:		
Interest paid	$24,041	$12,554
Share-based long term incentive plan unit awards (non-cash)	192	189
Aggregate TBA trade activity (buys + sells) (non-cash)	14,759,189	11,157,765
Purchase of investments (non-cash)	(10,831)	(24,211)
Proceeds from principal payments of investments (non-cash)	22,807	4,315
Proceeds from the disposition of investments (non-cash)	10,831	25,693
Proceeds from issuance of Other secured borrowings (non-cash)	—	17,175
Principal payments on Other secured borrowings (non-cash)	—	(22,972)
Principal payments on Other secured borrowings, at fair value (non-cash)	(22,807)	—

(1) Related to non-qualified mortgage securitization transaction. See Note 6 for further details.
(2) Conformed to current period presentation.

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ELLINGTON FINANCIAL LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018
(UNAUDITED)

1. Organization and Investment Objective

Ellington Financial LLC was formed as a Delaware limited liability company on July 9, 2007 and commenced operations on August 17, 2007. Ellington Financial Operating Partnership LLC (the "Operating Partnership"), a 99.3% owned consolidated subsidiary of Ellington Financial LLC, was formed as a Delaware limited liability company on December 14, 2012 and commenced operations on January 1, 2013. All of the Company's operations and business activities are conducted through the Operating Partnership. Ellington Financial LLC, the Operating Partnership, and their consolidated subsidiaries are hereafter collectively referred to as the "Company." All intercompany accounts are eliminated in consolidation.

The Company is a specialty finance company that invests in a diverse array of financial assets, including residential mortgage-backed securities, or "RMBS," commercial mortgage-backed securities, or "CMBS," residential and commercial mortgage loans, consumer loans and asset-backed securities, or "ABS," backed by consumer loans, collateralized loan obligations, or "CLOs," corporate equity and debt securities (including distressed debt), non-mortgage and mortgage-related derivatives, equity investments in mortgage-related entities, and other strategic investments.

Ellington Financial Management LLC ("EFM" or the "Manager") is an SEC-registered investment adviser and a registered commodity pool operator that serves as the Manager to the Company pursuant to the terms of its seventh amended and restated management agreement (the "Management Agreement"). EFM is an affiliate of Ellington Management Group, L.L.C., ("Ellington") an investment management firm that is registered as both an investment adviser and a commodity pool operator. In accordance with the terms of the Management Agreement, the Manager implements the investment strategy and manages the business and operations on a day-to-day basis for the Company and performs certain services for the Company, subject to oversight by the Company's Board of Directors ("Board of Directors").

2. Significant Accounting Policies

(A) Basis of Presentation: The Company's unaudited interim consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America, or "U.S. GAAP," for investment companies, ASC 946, Financial Services—Investment Companies ("ASC 946"). The Company has determined that it meets the definition of an investment company under ASC 946. ASC 946 requires, among other things, that investments be reported at fair value in the financial statements. Additionally under ASC 946 the Company generally will not consolidate its interest in any company other than in its subsidiaries that qualify as investment companies under ASC 946. The consolidated financial statements include the accounts of the Company, the Operating Partnership, and its subsidiaries. They also include certain securitization trusts which are designed to facilitate specific financing activities of the Company and represent a direct extension of the Company's business activities. All intercompany balances and transactions have been eliminated. The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In management's opinion, all material adjustments considered necessary for a fair statement of the Company's interim consolidated financial statements have been included and are only of a normal recurring nature. Interim results are not necessarily indicative of the results that may be expected for the entire fiscal year. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

(B) Valuation: The Company applies ASC 820-10, Fair Value Measurement ("ASC 820-10"), to its holdings of financial instruments. ASC 820-10 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the observability of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1—inputs to the valuation methodology are observable and reflect quoted prices (unadjusted) for identical assets or liabilities in active markets. Currently, the types of financial instruments the Company generally includes in this category are listed equities, exchange-traded derivatives, and cash equivalents;
- Level 2—inputs to the valuation methodology other than quoted prices included in Level 1 are observable for the asset or liability, either directly or indirectly. Currently, the types of financial instruments that the Company generally includes in this category are Agency RMBS, U.S. Treasury securities and sovereign debt, certain non-Agency RMBS and CMBS, CLOs, and corporate debt, and actively traded derivatives, such as interest rate swaps and foreign currency forwards, and certain other over-the-counter derivatives; and

- Level 3—inputs to the valuation methodology are unobservable and significant to the fair value measurement. The types of financial instruments that the Company generally includes in this category are certain RMBS, CMBS, and CLOs, ABS, credit default swaps, or "CDS," on individual ABS, distressed corporate debt, and total return swaps on distressed corporate debt, in each case where there is less price transparency. Also included in this category are residential and commercial mortgage loans, consumer loans, non-listed equities, private corporate debt and equity investments, secured notes, and Other secured borrowings, at fair value.

For certain financial instruments, the various inputs that management uses to measure fair value for such financial instrument may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for such financial instrument is based on the lowest level of input that is significant to the fair value measurement. ASC 820 prioritizes the various inputs that management uses to measure fair value with the highest priority to inputs that are observable and reflect quoted prices (unadjusted) for identical assets or liabilities in active markets (Level 1) and the lowest priority to inputs that are unobservable and significant to the fair value measurement (Level 3). The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument. The Company may use valuation techniques consistent with the market and income approaches to measure the fair value of its assets and liabilities. The market approach uses third-party valuations and information obtained from market transactions involving identical or similar assets or liabilities. The income approach uses projections of the future economic benefit of an instrument to determine its fair value, such as in the discounted cash flow methodology. The inputs or methodology used for valuing financial instruments are not necessarily an indication of the risk associated with investing in these financial instruments. The leveling of each financial instrument is reassessed at the end of each period. Transfers between levels of the fair value hierarchy are assumed to occur at the end of the reporting period.

Summary Valuation Techniques

For financial instruments that are traded in an "active market," the best measure of fair value is the quoted market price. However, many of the Company's financial instruments are not traded in an active market. Therefore, management generally uses third-party valuations when available. If third-party valuations are not available, management uses other valuation techniques, such as the discounted cash flow methodology. The following are summary descriptions, for various categories of financial instruments, of the valuation methodologies management uses in determining fair value of the Company's financial instruments in such categories. Management utilizes such methodologies to assign a good faith fair value (the estimated price that, in an orderly transaction at the valuation date, would be received to sell an asset, or paid to transfer a liability, as the case may be) to each such financial instrument.

For mortgage-backed securities, or "MBS," including To Be Announced MBS, or "TBAs," CLOs, and distressed and non-distressed corporate debt and equity, management seeks to obtain at least one third-party valuation, and often obtains multiple valuations when available. Management has been able to obtain third-party valuations on the vast majority of these instruments and expects to continue to solicit third-party valuations in the future. Management generally values each financial instrument at the average of third-party valuations received and not rejected as described below. Third-party valuations are not binding, and while management generally does not adjust the valuations it receives, management may challenge or reject a valuation when, based on its validation criteria, management determines that such valuation is unreasonable or erroneous. Furthermore, based on its validation criteria, management may determine that the average of the third-party valuations received for a given instrument does not result in what management believes to be the fair value of such instrument, and in such circumstances management may override this average with its own good faith valuation. The validation criteria may take into account output from management's own models, recent trading activity in the same or similar instruments, and valuations received from third parties. The use of proprietary models requires the use of a significant amount of judgment and the application of various assumptions including, but not limited to, assumptions concerning future prepayment rates and default rates. Valuations for fixed-rate RMBS pass-throughs issued by a U.S. government agency or government-sponsored enterprise are typically based on observable pay-up data (pay-ups are price premiums for specified categories of fixed-rate pools relative to their TBA counterparts) or models that use observable market data, such as interest rates and historical prepayment speeds, and are validated against third-party valuations. Given their relatively high level of price transparency, Agency RMBS pass-throughs are typically designated as Level

2 assets. Non-Agency MBS, Agency interest only and inverse interest only RMBS, and CLOs are generally classified as either Level 2 or Level 3 based on analysis of available market data and/or third-party valuations. The Company's investments in distressed corporate debt can be in the form of loans as well as total return swaps on loans. These investments, as well as related non-listed equity investments, are generally designated as Level 3 assets. Valuations for total return swaps are typically based on prices of the underlying loans received from widely used third-party pricing services. Investments in non-distressed corporate bonds are generally also valued based on prices received from third-party pricing services, and many of these bonds, because they are very liquid with readily observable data, are generally classified as Level 2 holdings. Furthermore, the methodology used by the third-party valuation providers is reviewed at least annually by management, so as to ascertain whether such providers are utilizing observable market data to determine the valuations that they provide.

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For residential and commercial mortgage loans, consumer loans, and real estate owned properties, or "REO," management determines fair value by taking into account both external pricing data, when available, and internal pricing models. Non-performing mortgage loans and REO are typically valued based on management's estimates of the value of the underlying real estate, using information including general economic data, broker price opinions, or "BPOs," recent sales, property appraisals, and bids. Performing mortgage loans and consumer loans are typically valued using discounted cash flows based on market assumptions. Cash flow assumptions typically include projected default and prepayment rates and loss severities, and may include adjustments based on appraisals and BPOs. Mortgage and consumer loans and REO properties are classified as Level 3 assets.

Securitized mortgage loans that are not deemed "qualified mortgage," or "QM," loans under the rules of the Consumer Financial Protection Bureau, or "non-QM loans," are held as part of a collateralized financing entity, or "CFE." A CFE is a variable interest entity, or "VIE," that holds financial assets, issues beneficial interests in those assets, and has no more than nominal equity, and for which the issued beneficial interests have contractual recourse only to the related assets of the CFE. ASC 810, Consolidation ("ASC 810"), allows the Company to elect to measure both the financial assets and financial liabilities of the CFE using the more observable of the fair value of the financial assets and the fair value of the financial liabilities of the CFE. The Company has elected the fair value option for initial and subsequent recognition of the debt issued by its consolidated securitization trusts and has determined such trust meets the definition of a CFE; see Note 6 for further discussion on the Company's securitization trusts. The Company has determined the inputs to the fair value measurement of the financial liabilities of its CFE to be more observable than those of the financial assets and, as a result, has used the fair value of the financial liabilities of the CFE to measure the fair value of the financial assets of the CFE. The fair value of the debt issued by the CFE is typically valued using discounted cash flows and other market data. The securitized non-QM loans, which are assets of the CFE, are included in Investments, at fair value on the Company's Consolidated Statement of Assets, Liabilities, and Equity. The debt issued by the CFE is included in Other secured borrowings, at fair value, on the Company's Consolidated Statement of Assets, Liabilities, and Equity. The securitized non-QM loans and the debt issued by the Company's CFE are both designated as Level 3 financial instruments.

For financial derivatives with greater price transparency, such as CDS on asset-backed indices, CDS on corporate indices, certain options on the foregoing, and total return swaps on publicly traded equities, market-standard pricing sources are used to obtain valuations; these financial derivatives are generally designated as Level 2 instruments. Interest rate swaps, swaptions, and foreign currency forwards are typically valued based on internal models that use observable market data, including applicable interest rates and foreign currency rates in effect as of the measurement date; the model-generated valuations are then typically compared to counterparty valuations for reasonableness. These financial derivatives are also generally designated as Level 2 instruments. Financial derivatives with less price transparency, such as CDS on individual ABS, are generally valued based on internal models, and are typically designated as Level 3 instruments. In the case of CDS on individual ABS, the valuation process typically starts with an estimation of the value of the underlying ABS. In valuing its derivatives, the Company also considers the creditworthiness of both the Company and its counterparties, along with collateral provisions contained in each derivative agreement.

Investments in private operating entities, such as mortgage originators, are valued based on available metrics, such as relevant market multiples and comparable company valuations, company specific-financial data including actual and projected results and independent third party valuation estimates. These investments are designated as Level 3 assets.

The Company's repurchase agreements are carried at fair value based on their contractual amounts as the debt is short-term in nature. The Company's reverse repurchase agreements are carried at cost, which approximates fair value. Repurchase and reverse repurchase agreements are classified as Level 2 assets and liabilities based on the adequacy of the collateral and their short term nature.

The Company's valuation process, including the application of validation criteria, is overseen by the Manager's Valuation Committee ("Valuation Committee"). The Valuation Committee includes senior level executives from various departments within the Manager, and each quarter, the Valuation Committee reviews and approves the valuations of the Company's investments. The valuation process also includes a monthly review by the Company's third-party administrator. The goal of this review is to replicate various aspects of the Company's valuation process based on the Company's documented procedures.

Because of the inherent uncertainty of valuation, the estimated fair value of the Company's financial instruments may differ significantly from the values that would have been used had a ready market for the financial instruments existed, and the differences could be material to the Company's consolidated financial statements.

(C) Purchase and Sales of Investments and Investment Income: Purchases and sales of investments are generally recorded on trade date, and realized and unrealized gains and losses are calculated based on identified cost. The Company amortizes

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premiums and accretes discounts on its debt investments. Coupon interest income on fixed-income investments is generally accrued based on the outstanding principal balance or notional value and the current coupon interest rate. For Agency RMBS and debt securities that are deemed to be of high credit quality at the time of purchase, premiums and discounts are amortized into interest income over the life of such securities using the effective interest method. For securities whose cash flows vary depending on prepayments, an effective yield retroactive to the time of purchase is periodically recomputed based on actual prepayments and changes in projected prepayment activity, and a catch-up adjustment is made to amortization to reflect the cumulative impact of the change in effective yield.

For debt securities (including non-Agency MBS) that are deemed not to be of high credit quality at the time of purchase, interest income is recognized based on the effective interest method. For purposes of determining the effective interest rate, management estimates the future expected cash flows of its investment holdings based on assumptions including, but not limited to, assumptions for future prepayment rates, default rates, and loss severities (each of which may in turn incorporate various macro-economic assumptions, such as future housing prices). These assumptions are re-evaluated not less than quarterly. Principal write-offs are generally treated as realized losses. Changes in projected cash flows, as applied to the current amortized cost of the security, may result in a prospective change in the yield/interest income recognized on such securities.

For each loan purchased with the expectation that both interest and principal will be paid in full, the Company generally amortizes or accretes any premium or discount over the life of the loan utilizing the effective interest method. However, on at least a quarterly basis based on current information and events, the Company re-assesses the collectability of interest and principal, and designates a loan as impaired either when any payments have become 90 or more days past due, or when, in the opinion of management, it is probable that the Company will be unable to collect either interest or principal in full. Once a loan is designated as impaired, as long as principal is still expected to be collectable in full, interest payments are recorded as interest income only when received (i.e., under the cash basis method); accruals of interest income are only resumed when the loan becomes contractually current and performance is demonstrated to be resumed. However, if principal is not expected to be collectable in full, the cost recovery method is used (i.e., no interest income is recognized, and all payments received—whether contractually interest or principal—are applied to cost).

For each loan purchased with evidence of credit deterioration since origination and the expectation that either principal or interest will not be paid in full, interest income is generally recognized using the effective interest method for as long as the cash flows can be reasonably estimated. Here, instead of amortizing the purchase discount (i.e., the excess of the unpaid principal balance over the purchase price) over the life of the loan, the Company effectively amortizes the accretable yield (i.e., the excess of the Company's estimate of the total cash flows to be collected over the life of the loan over the purchase price). Not less than quarterly, the Company updates its estimate of the cash flows expected to be collected over the life of the loan, and revised yields are prospectively applied. To the extent that cash flows cannot be reasonably estimated, these loans are generally accounted for under the cost recovery method.

For certain groups of consumer loans that the Company considers as having sufficiently homogeneous characteristics, the Company aggregates such loans into pools, and accounts for each such pool as a single asset. The pool is then treated analogously to a debt security deemed not to be of high credit quality, in that (i) the aggregate premium or discount for the pool is amortized or accreted into interest income based on the pool's effective interest rate; (ii) the effective interest rate is determined based on the net expected cash flows of the pool, taking into account estimates of prepayments, defaults, and loss severities; and (iii) estimates are updated not less than quarterly and revised yields are prospectively applied.

In estimating future cash flows on the Company's debt investments, there are a number of assumptions that will be subject to significant uncertainties and contingencies, including, in the case of MBS, assumptions relating to prepayment rates, default rates, loan loss severities, and loan repurchases. These estimates require the use of a significant amount of judgment.

The Company receives dividend income on certain of its equity investments and rental income on certain of its REO properties. These items of income are included on the Consolidated Statement of Operations in, "Other income."

(D) Cash and Cash Equivalents: Cash and cash equivalents include cash and short term investments with original maturities of three months or less at the date of acquisition. Cash and cash equivalents typically include amounts held in an interest bearing overnight account and amounts held in money market funds, and these balances generally exceed insured limits. The Company holds its cash at institutions that it believes to be highly creditworthy. Restricted cash represents cash that the Company can use only for specific purposes. The Company's investments in money market funds are included in the Consolidated Condensed Schedule of Investments. See Note 15 for further discussion of restricted cash balances.

(E) Financial Derivatives: The Company enters into various types of financial derivatives. The Company's financial derivatives are predominantly subject to bilateral collateral arrangements or clearing in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. The Company may be required to deliver or receive cash or securities as collateral upon entering into derivative transactions. In addition, changes in the relative value of derivative transactions may require the Company or the counterparty to post or receive additional collateral. In the case of cleared derivatives, the clearinghouse becomes the Company's counterparty and a futures commission merchant acts as an intermediary between the Company and the clearinghouse with respect to all facets of the related transaction, including the posting and receipt of required collateral. Cash collateral received by the Company is reflected on the Consolidated Statement of Assets, Liabilities, and Equity as "Due to Brokers." Conversely, cash collateral posted by the Company is reflected as "Due from Brokers" on the Consolidated Statement of Assets, Liabilities, and Equity. The major types of derivatives utilized by the Company are swaps, futures, options, and forwards.

Swaps: The Company may enter into various types of swaps, including interest rate swaps, credit default swaps, and total return swaps. The primary risk associated with the Company's interest rate swap activity is interest rate risk. The primary risk associated with the Company's credit default swaps is credit risk and the primary risks associated with the Company's total return swap activity are equity market risk and credit risk.

The Company is subject to interest rate risk exposure in the normal course of pursuing its investment objectives. Primarily to help mitigate interest rate risk, the Company enters into interest rate swaps. Interest rate swaps are contractual agreements whereby one party pays a floating interest rate on a notional principal amount and receives a fixed-rate payment on the same notional principal, or vice versa, for a fixed period of time. Interest rate swaps change in value with movements in interest rates.

The Company enters into credit default swaps. A credit default swap is a contract under which one party agrees to compensate another party for the financial loss associated with the occurrence of a "credit event" in relation to a "reference amount" or notional value of a credit obligation (usually a bond, loan, or a basket of bonds or loans). The definition of a credit event may vary from contract to contract. A credit event may occur (i) when the underlying reference asset(s) fails to make scheduled principal or interest payments to its holders, (ii) with respect to credit default swaps referencing mortgage/asset-backed securities and indices, when the underlying reference obligation is downgraded below a certain rating level, or (iii) with respect to credit default swaps referencing corporate entities and indices, upon the bankruptcy of the underlying reference obligor. The Company typically writes (sells) protection to take a "long" position or purchases (buys) protection to take a "short" position with respect to underlying reference assets or to hedge exposure to other investment holdings.

The Company enters into total return swaps in order to take a "long" or "short" position with respect to an underlying reference asset. The Company is subject to market price volatility of the underlying reference asset. A total return swap involves commitments to pay interest in exchange for a market-linked return based on a notional value. To the extent that the total return of the corporate debt, security, group of securities or index underlying the transaction exceeds or falls short of the offsetting interest obligation, the Company will receive a payment from or make a payment to the counterparty.

Swaps change in value with movements in interest rates, credit quality, or total return of the reference securities. During the term of swap contracts, changes in value are recognized as unrealized gains or losses. When a contract is terminated, the Company realizes a gain or loss equal to the difference between the proceeds from (or cost of) the closing transaction and the Company's basis in the contract, if any. Periodic payments or receipts required by swap agreements are recorded as unrealized gains or losses when accrued and realized gains or losses when received or paid. Upfront payments paid and/or received by the Company to open swap contracts are recorded as an asset and/or liability on the Consolidated Statement of Assets, Liabilities, and Equity and are recorded as a realized gain or loss on the termination date.

Futures Contracts: A futures contract is an exchange-traded agreement to buy or sell an asset for a set price on a future date. The Company enters into Eurodollar and/or U.S. Treasury security futures contracts to hedge its interest rate risk. The Company may also enter into various other futures contracts, including equity index futures and foreign currency futures. Initial margin deposits are made upon entering into futures contracts and can generally be either in the form of cash or securities. During the period the futures contract is open, changes in the value of the contract are recognized as unrealized gains or losses by marking-to-market to reflect the current market value of the contract. Variation margin payments are made or received periodically, depending upon whether unrealized losses or gains are incurred. When the contract is closed, the Company records a realized gain or loss equal to the difference between the proceeds of the closing transaction and the Company's basis in the contract.

Options: The Company may purchase or write put or call options contracts or enter into swaptions. The Company enters into options contracts typically to help mitigate overall market, credit, or interest rate risk depending on the type of options contract. However, the Company also enters into options contracts from time to time for speculative purposes. When the Company purchases an options contract, the option asset is initially recorded at an amount equal to the premium paid, if any, and is subsequently marked-to-market. Premiums paid for purchasing options contracts that expire unexercised are recognized on the expiration date as realized losses. If an options contract is exercised, the premium paid is subtracted from the proceeds of the sale or added to the cost of the purchase to determine whether the Company has realized a gain or loss on the related transaction. When the Company writes an options contract, the option liability is initially recorded at an amount equal to the premium received, if any, and is subsequently marked-to-market. Premiums received for writing options contracts that expire unexercised are recognized on the expiration date as realized gains. If an options contract is exercised, the premium received is subtracted from the cost of the purchase or added to the proceeds of the sale to determine whether the Company has realized a gain or loss on the related investment transaction. When the Company enters into a closing transaction, the Company will realize a gain or loss depending upon whether the amount from the closing transaction is greater or less than the premiums paid or received. The Company may also enter into options contracts that contain forward-settling premiums. In this case, no money is exchanged upfront. Instead the agreed-upon premium is paid by the buyer upon expiration of the option, regardless of whether or not the option is exercised.

Forward Currency Contracts: A forward currency contract is an agreement between two parties to purchase or sell a specific quantity of currency with the delivery and settlement at a specific future date and exchange rate. During the period the forward currency contract is open, changes in the value of the contract are recognized as unrealized gains or losses. When the contract is settled, the Company records a realized gain or loss equal to the difference between the proceeds of the closing transaction and the Company's basis in the contract.

Commitments to Purchase Residential Mortgage Loans: The Company has entered into forward purchase commitments under flow agreements, whereby the Company commits to purchasing the loans based on pre-defined underwriting guidelines and at stated interest rates. Actual loan purchases are contingent upon successful loan closings. These commitments to purchase mortgage loans are classified as derivatives on the Company's Consolidated Statement of Assets, Liabilities, and Equity and are, therefore, recorded as assets or liabilities measured at fair value. Until the purchase commitment expires or the underlying loan closes, changes in the estimated fair value of such commitments are recognized as unrealized gains or losses in the Consolidated Statement of Operations.

Financial derivatives disclosed on the Consolidated Condensed Schedule of Investments include: credit default swaps on asset-backed securities, credit default swaps on asset-backed indices, credit default swaps on corporate bond indices, credit default swaps on corporate bonds, interest rate swaps, total return swaps, futures contracts, foreign currency forwards, options contracts.

Financial derivative assets are included in Financial derivatives—assets, at fair value on the Consolidated Statement of Assets, Liabilities, and Equity. Financial derivative liabilities are included in Financial derivatives—liabilities, at fair value on the Consolidated Statement of Assets, Liabilities, and Equity. In addition, financial derivative contracts are summarized by type on the Consolidated Condensed Schedule of Investments.

(F) Investments Sold Short: When the Company sells securities short, it typically satisfies its security delivery settlement obligation by obtaining the security sold short from the same or a different counterparty. The Company generally is required to deliver cash or securities as collateral to the counterparty for the Company's obligation to return the borrowed security. The amount by which the market value of the obligation falls short of or exceeds the proceeds from the short sale is treated as an unrealized gain or loss, respectively. A realized gain or loss will be recognized upon the termination of a short sale if the market price is less or greater than the proceeds originally received.

(G) Reverse Repurchase Agreements: The Company enters into reverse repurchase agreements with third-party broker-dealers whereby it sells securities under agreements to be repurchased at an agreed-upon price and date. The Company accounts for reverse repurchase agreements as collateralized borrowings, with the initial sale price representing the amount borrowed, and with the future repurchase price consisting of the amount borrowed plus interest, at the implied interest rate of the reverse repurchase agreement, on the amount borrowed over the term of the reverse repurchase agreement. The interest rate on a reverse repurchase agreement is based on competitive rates (or competitive market spreads, in the case of agreements with floating interest rates) at the time such agreement is entered into. When the Company enters into a reverse repurchase agreement, the lender establishes and maintains an account containing cash and/or securities having a value not less than the repurchase price, including accrued interest, of the reverse repurchase agreement. Reverse repurchase agreements are carried at their contractual amounts, which approximate fair value as the debt is short-term in nature.

(H) Repurchase Agreements: The Company enters into repurchase agreement transactions whereby it purchases securities under agreements to resell at an agreed-upon price and date. In general, securities received pursuant to repurchase agreements are delivered to counterparties of short sale transactions. The interest rate on a repurchase agreement is based on competitive rates (or competitive market spreads, in the case of agreements with floating interest rates) at the time such agreement is entered into. Assets held pursuant to repurchase agreements are reflected as assets on the Consolidated Statement of Assets, Liabilities, and Equity. Repurchase agreements are carried at fair value based on their contractual amounts as the debt is short-term in nature.

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Repurchase and reverse repurchase agreements that are conducted with the same counterparty may be reported on a net basis if they meet the requirements of ASC 210-20, Balance Sheet Offsetting. There are no repurchase and reverse repurchase agreements reported on a net basis in the Company's consolidated financial statements.
(I) Transfers of Financial Assets: The Company enters into transactions whereby it transfers financial assets to third parties. Upon such a transfer of financial assets, the Company will sometimes retain or acquire interests in the related assets. The Company evaluates transferred assets pursuant to ASC 860-10, Transfers of Financial Assets, or "ASC 860-10," which requires that a determination be made as to whether a transferor has surrendered control over transferred financial assets. That determination must consider the transferor's continuing involvement in the transferred financial asset, including all arrangements or agreements made contemporaneously with, or in contemplation of, the transfer, even if they were not entered into at the time of the transfer. When a transfer of financial assets does not qualify as a sale, ASC 860-10 requires the transfer to be accounted for as a secured borrowing with a pledge of collateral. ASC 860-10 is a standard that requires the Company to exercise significant judgment in determining whether a transaction should be recorded as a "sale" or a "financing."
(J) When-Issued/Delayed Delivery Securities: The Company may purchase or sell securities on a when-issued or delayed delivery basis. Securities purchased or sold on a when-issued basis are traded for delivery beyond the normal settlement date at a stated price or yield, and no income accrues to the purchaser prior to settlement. Purchasing or selling securities on a when-issued or delayed delivery basis involves the risk that the market price or yield at the time of settlement may be lower or higher than the agreed-upon price or yield, in which case a realized loss may be incurred.
The Company transacts in the forward settling TBA market. The Company typically does not take delivery of TBAs, but rather settles the associated receivable and payable with its trading counterparties on a net basis. Transactions with the same counterparty for the same TBA that result in a reduction of the position are treated as extinguished. The market value of the securities that the Company is required to purchase pursuant to a TBA transaction may decline below the agreed-upon purchase price. Conversely, the market value of the securities that the Company is required to sell pursuant to a TBA transaction may increase above the agreed upon sale price. As part of its TBA activities, the Company may "roll" its TBA positions, whereby the Company may sell (buy) securities for delivery (receipt) in an earlier month and simultaneously contract to repurchase (sell) similar, but not identical, securities at an agreed-upon price on a fixed date in a later month (with the later-month price typically lower than the earlier-month price). The Company accounts for its TBA transactions (including those related to TBA rolls) as purchases and sales.
(K) REO: When the Company obtains possession of real property in connection with a foreclosure or similar action, the Company de-recognizes the associated mortgage loan according to ASU 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure ("ASU 2014-04"). Under the provisions of ASU 2014-04, the Company is deemed to have received physical possession of real estate property collateralizing a mortgage loan when it obtains legal title to the property upon completion of a foreclosure or when the borrower conveys all interest in the property to it through a deed in lieu of foreclosure or similar legal agreement. The Company holds all REO at fair value.
(L) Investments in Operating Entities: The Company has made and may in the future make non-controlling investments in operating entities such as mortgage originators. Investments in such operating entities may be in the form of preferred and/or common equity, debt, or some other form of investment. The Company carries its investments in such entities at fair value. In cases where the operating entity provides services to the Company, the Company is required to use the equity method of accounting.
(M) Variable Interest Entities: VIEs are entities in which: (i) the equity investors do not have the characteristics of a controlling financial interest, or (ii) there is insufficient equity to permit the entity to finance its activities without additional subordinated financial support from other parties. The Company holds beneficial interests in securitization trusts that are considered VIEs. The beneficial interests in these securitization trusts are represented by certificates issued by the trusts. The securitization trusts have been structured as pass-through entities that receive principal and interest payments on the underlying collateral and distribute those payments to the certificate holders, which include both third-party investors and the Company. The certificates held by the Company typically include some or all of the most subordinated tranches. The assets held by the trusts are restricted in that they can only be used to fulfill the

obligations of the related trust. In certain cases the design and structure of the securitization trust is such that the Company effectively retains control of the assets as well as the activities that most significantly impact the economic performance of the trust; in such cases the trust is considered a direct extension of the Company's business, and the Company consolidates the trust. In cases where the Company does not effectively retain control of the assets of, or the activities that most significantly impact the economic performance of, the related trust, it does not consolidate the trust. See Note 6 for further discussion of the Company's securitization trusts.

(N) Offering Costs/Underwriters' Discount: Offering costs and underwriters' discount are charged against shareholders' equity. Offering costs typically include legal, accounting, printing, and other fees associated with the cost of raising capital.

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(O) Debt Issuance Costs: Debt issuance costs associated with debt for which the Company has elected the fair value option are expensed at the issuance of the debt, and are included in Other investment related expenses on the Consolidated Statement of Operations. Costs associated with the issuance of debt for which the Company has not elected the fair value option are amortized over the life of the debt, which approximates the effective interest rate method, and are included in Interest expense on the Consolidated Statement of Operations. Deferred debt issuance costs are presented on the Consolidated Statement of Assets, Liabilities, and Equity as a direct deduction from the related debt liability, unless such deferred debt issuance costs are associated with borrowing facilities that are expected to have a future benefit, such as giving the Company the ability to access additional borrowings over the contractual term of the debt, in which case such deferred debt issuance costs are included in Other Assets on Consolidated Statement of Assets, Liabilities, and Equity. Debt issuance costs include legal and accounting fees, purchasers' or underwriters' discount, as well as other fees associated with the cost of the issuance of the related debt.
(P) Expenses: Expenses are recognized as incurred on the Consolidated Statement of Operations.
(Q) Other Investment Related Expenses: Other investment related expenses consist of expenses directly related to specific financial instruments. Such expenses generally include dividend expense on common stock sold short, servicing fees and corporate and escrow advances on mortgage and consumer loans, and various other expenses and fees related directly to the Company's financial instruments. Other investment related expenses are recognized as incurred on the Consolidated Statement of Operations; dividend expense on common stock sold short is recognized on the ex-dividend date.
(R) LTIP Units: Long term incentive plan units ("LTIP Units") have been issued to the Company's dedicated or partially dedicated personnel and independent directors as well as the Manager. Costs associated with LTIP Units issued to dedicated or partially dedicated personnel, or to independent directors, are measured as of the grant date based on the closing stock price on the New York Stock Exchange and are amortized over the vesting period in accordance with ASC 718-10, Compensation—Stock Compensation. The vesting periods for LTIP Units are typically one year from issuance for independent directors, and are typically one year to two years from issuance for dedicated or partially dedicated personnel.
(S) Non-controlling interests: Non-controlling interests include the interest in the Operating Partnership owned by an affiliate of the Manager and certain related parties and consist of units convertible into the Company's common shares. Non-controlling interests also include the interests of joint venture partners in certain of our consolidated subsidiaries. The joint venture partners' interests do not consist of units convertible into the Company's common shares. The Company adjusts the non-controlling interests owned by an affiliate of the Manager and certain related parties to align their carrying value with the share of total outstanding operating partnership units ("OP Units") issued by the Operating Partnership to the non-controlling interest. Any such adjustments are reflected in "Adjustment to non-controlling interest" on the Consolidated Statement of Changes in Equity. See Note 11 for further discussion of non-controlling interests.
(T) Dividends: Dividends payable by the Company are recorded on the ex-dividend date. Dividends are typically declared and paid on a quarterly basis in arrears.
(U) Shares Repurchased: Common shares that are repurchased by the Company subsequent to issuance are immediately retired upon settlement and decrease the total number of shares outstanding and issued.
(V) Earnings Per Share ("EPS"): Basic EPS is computed using the two class method by dividing net increase (decrease) in shareholders' equity resulting from operations after adjusting for the impact of LTIP Units which are participating securities, by the weighted average number of common shares outstanding calculated including LTIP Units. Because the Company's LTIP Units are participating securities, they are included in the calculation of basic and diluted EPS. OP Units relating to a non-controlling interest are also participating securities and, accordingly, are included in the calculation of both basic and diluted EPS.
(W) Foreign Currency: Assets and liabilities denominated in foreign currencies are translated into U.S. dollars at current exchange rates at the following dates: (i) assets, liabilities, and unrealized gains/losses—at the valuation date; and (ii) income, expenses, and realized gains/losses—at the accrual/transaction date. The Company isolates the portion of realized and change in unrealized gain (loss) resulting from changes in foreign currency exchange rates on investments and financial derivatives from the fluctuations arising from changes in fair value of investments and

financial derivatives held. Changes in realized and change in unrealized gain (loss) due to foreign currency are included in Foreign currency transactions and Foreign currency translation, respectively, on the Consolidated Statement of Operations.

(X) Income Taxes: The Company has been and continues to expect to be treated as a partnership for U.S. federal income tax purposes. Certain of the Company's subsidiaries are not consolidated for U.S. federal income tax purposes, but are also treated as partnerships. In general, partnerships are not subject to entity-level tax on their income, but the income of a partnership is taxable to its owners on a flow-through basis. In addition, certain subsidiaries of the Company have elected to be

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treated as corporations for U.S. federal income tax purposes, and one has elected to be taxed as a real estate investment trust, or "REIT."

The Company follows the authoritative guidance on accounting for and disclosure of uncertainty on tax positions, which requires management to determine whether a tax position of the Company is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. For uncertain tax positions, the tax benefit to be recognized is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The Company did not have any additions to unrecognized tax benefits resulting from tax positions related either to the current period or to 2017, 2016, 2015, or 2014 (its open tax years), and no reductions resulting from tax positions of prior years or due to settlements, and thus had no unrecognized tax benefits or reductions since inception. The Company does not expect any change in unrecognized tax benefits within the next fiscal year. There were no amounts accrued for tax penalties or interest as of or during the periods presented in these consolidated financial statements.

The Company may take positions with respect to certain tax issues which depend on legal interpretation of facts or applicable tax regulations. Should the relevant tax regulators successfully challenge any of such positions, the Company might be found to have a tax liability that has not been recorded in the accompanying consolidated financial statements. Also, management's conclusions regarding ASC 740-10 may be subject to review and adjustment at a later date based on factors including, but not limited to, further implementation guidance from the Financial Accounting Standards Board, or "FASB," and ongoing analyses of tax laws, regulations and interpretations thereof.

(Y) Recent Accounting Pronouncements: In June 2018, the FASB issued ASU 2018-07, Compensation—Stock Compensation—Improvements to Nonemployee Share-Based Payment Accounting ("ASU 2018-07"). This amends ASC 718, Compensation—Stock Compensation, to simplify several aspects of accounting for nonemployee share-based payment transactions. ASU 2018-07 is effective for annual periods beginning after December 15, 2019 and interim periods beginning after December 15, 2020 with early adoption permitted. The adoption of ASU 2018-07 is not expected to have a material impact on the Company's consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows—Restricted Cash ("ASU 2016-18"). This amends ASC 230, Statement of Cash Flows, to require that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 became effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The adoption of ASU 2016-18 did not have a material impact on the Company's consolidated financial statements.

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3. Valuation

The table below reflects the value of the Company's Level 1, Level 2, and Level 3 financial instruments at June 30, 2018:

Description	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Cash equivalents	$6,833	$—	$—	$6,833
Investments, at fair value-				
Agency residential mortgage-backed securities	$—	$1,259,669	$5,889	$1,265,558
U.S. Treasury securities	—	70,468	—	70,468
Private label residential mortgage-backed securities	—	179,707	96,396	276,103
Private label commercial mortgage-backed securities	—	24,475	8,761	33,236
Commercial mortgage loans	—	—	104,951	104,951
Residential mortgage loans	—	—	293,472	293,472
Collateralized loan obligations	—	204,212	6,109	210,321
Consumer loans and asset-backed securities backed by consumer loans	—	—	199,254	199,254
Corporate debt	—	72,288	8,850	81,138
Secured notes	—	—	11,126	11,126
Real estate owned	—	—	34,339	34,339
Corporate equity investments	737	—	44,768	45,505
Total investments, at fair value	737	1,810,819	813,915	2,625,471
Financial derivatives–assets, at fair value-				
Credit default swaps on asset-backed securities	—	—	2,591	2,591
Credit default swaps on corporate bond indices	—	816	—	816
Credit default swaps on corporate bonds	—	7,029	—	7,029
Credit default swaps on asset-backed indices	—	3,720	—	3,720
Interest rate swaps	—	15,770	—	15,770
Futures	674	—	—	674
Forwards	—	69	—	69
Total financial derivatives–assets, at fair value	674	27,404	2,591	30,669
Repurchase agreements, at fair value	—	214,411	—	214,411
Total investments, financial derivatives–assets, and repurchase agreements, at fair value	$1,411	$2,052,634	$816,506	$2,870,551
Liabilities:				
Investments sold short, at fair value-				
Agency residential mortgage-backed securities	$—	$(618,665)	$—	$(618,665)
Government debt	—	(179,086)	—	(179,086)
Corporate debt	—	(50,711)	—	(50,711)
Common stock	(33,684)	—	—	(33,684)
Total investments sold short, at fair value	(33,684)	(848,462)	—	(882,146)

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Description (continued)	Level 1	Level 2	Level 3	Total
	(In thousands)			
Financial derivatives–liabilities, at fair value-				
Credit default swaps on corporate bond indices	$—	$(7,234)	$—	$(7,234)
Credit default swaps on corporate bonds	—	(10,461)	—	(10,461)
Credit default swaps on asset-backed indices	—	(963)	—	(963)
Interest rate swaps	—	(6,490)	—	(6,490)
Total return swaps	—	(314)	—	(314)
Futures	(155)	—	—	(155)
Forwards	—	(58)	—	(58)
Total financial derivatives–liabilities, at fair value	(155)	(25,520)	—	(25,675)
Other secured borrowings, at fair value	—	—	(101,100)	(101,100)
Total investments sold short, financial derivatives–liabilities, and other secured borrowings, at fair value	$(33,839)	$(873,982)	$(101,100)	$(1,008,921)

The following table identifies the significant unobservable inputs that affect the valuation of the Company's Level 3 assets and liabilities as of June 30, 2018:

Description	Fair Value	Valuation Technique	Unobservable Input	Range Min	Max	Weighted Average
	(In thousands)					
Private label residential mortgage-backed securities	$ 31,830	Market Quotes	Non Binding Third-Party Valuation	$3.50	$172.06	$81.00
Corporate debt and non-exchange traded corporate equity	4,402	Market Quotes	Non Binding Third-Party Valuation	8.50	99.75	73.32
Private label commercial mortgage-backed securities	6,641	Market Quotes	Non Binding Third-Party Valuation	5.18	95.27	86.02
Agency interest only residential mortgage-backed securities	609	Market Quotes	Non Binding Third-Party Valuation	3.71	4.98	4.35
Private label residential mortgage-backed securities	64,566	Discounted Cash Flows	Yield	3.0 %	40.0 %	8.5 %
			Projected Collateral Prepayments	1.4 %	89.2 %	46.5 %
			Projected Collateral Losses	0.5 %	20.0 %	9.1 %
			Projected Collateral Recoveries	0.0 %	13.9 %	7.3 %
			Projected Collateral Scheduled Amortization	9.5 %	92.0 %	37.1 %
						100.0 %
Private label commercial mortgage-backed securities	2,120	Discounted Cash Flows	Yield	6.7 %	35.5 %	23.0 %
			Projected Collateral Prepayments	0.0 %	— %	— %
			Projected Collateral Losses	2.9 %	3.0 %	2.9 %
			Projected Collateral Recoveries	6.8 %	10.9 %	9.3 %
				86.3 %	90.2 %	87.8 %

			Projected Collateral Scheduled Amortization			100.0 %
Corporate debt, non-exchange traded corporate equity, and secured notes	17,032	Discounted Cash Flows	Yield	14.3 %	15.0 %	14.8 %

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(continued) Description	Fair Value	Valuation Technique	Unobservable Input	Range Min		Max		Weighted Average	
	(In thousands)								
Collateralized loan obligations	$ 6,109	Discounted Cash Flows	Yield	8.3	%	90.3	%	25.4	%
			Projected Collateral Prepayments	7.9	%	91.2	%	65.3	%
			Projected Collateral Losses	1.8	%	48.2	%	20.0	%
			Projected Collateral Recoveries	3.1	%	43.9	%	13.9	%
			Projected Collateral Scheduled Amortization	—	%	3.7	%	0.8	%
								100.0	%
Consumer loans and asset-backed securities backed by consumer loans	199,254	Discounted Cash Flows	Yield	7.0	%	21.8	%	9.2	%
			Projected Collateral Prepayments	1.3	%	49.1	%	36.5	%
			Projected Collateral Losses	2.9	%	40.9	%	8.5	%
			Projected Collateral Scheduled Amortization	47.4	%	90.9	%	55.0	%
								100.0	%
Performing commercial mortgage loans	98,126	Discounted Cash Flows	Yield	8.0	%	17.1	%	10.9	%
Non-performing commercial mortgage loans and commercial real estate owned	40,270	Discounted Cash Flows	Yield	11.5	%	18.5	%	14.3	%
			Months to Resolution	6.0		11.0		7.4	
Performing residential mortgage loans	173,871	Discounted Cash Flows	Yield	3.6	%	11.9	%	5.7	%
Securitized residential mortgage loans(1)	107,856	Discounted Cash Flows	Yield	5.1	%	5.1	%	5.1	%
Non-performing residential mortgage loans and residential real estate owned	12,639	Discounted Cash Flows	Yield	4.4	%	45.8	%	9.1	%
			Months to Resolution(2)	4.9		57.3		31.7	
Credit default swaps on asset-backed securities	2,591	Net Discounted Cash Flows	Projected Collateral Prepayments	20.1	%	27.6	%	22.9	%
			Projected Collateral Losses	13.1	%	24.6	%	18.8	%
			Projected Collateral Recoveries	6.1	%	14.8	%	9.8	%
			Projected Collateral Scheduled Amortization	45.9	%	52.8	%	48.5	%
								100.0	%
	5,280		LIBOR OAS(3)	70		3,521		613	

Agency interest only residential mortgage-backed securities		Option Adjusted Spread ("OAS")				
			Projected Collateral Prepayments	48.0 %	100.0 %	63.7 %
			Projected Collateral Scheduled Amortization	0.0 %	52.0 %	36.3 %
						100.0 %
Non-exchange traded common equity investment in mortgage-related entity	2,814	Enterprise Value	Equity Price-to-Book(4)	1.8x	1.8x	1.8x
Non-exchange traded preferred equity investment in mortgage-related entity	28,009	Enterprise Value	Equity Price-to-Book(4)	1.0x	1.0x	1.0x
Non-controlling equity interest in limited liability company	5,284	Market Quotes	Non Binding Third-Party Valuation of the Underlying Assets(5)	$97.47	$97.47	$97.47
Non-controlling equity interest in limited liability company	7,203	Discounted Cash Flows	Yield(5)	9.8%	12.7%	10.3%
Other secured borrowings, at fair value(1)	(101,100)	Discounted Cash Flows	Yield	3.9%	3.9%	3.9%

(1) Securitized residential mortgage loans and Other secured borrowings, at fair value, represent financial assets and liabilities of the Company's CFE as discussed in Note 2.

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(2) Excludes certain loans that are re-performing.
(3) Shown in basis points.
(4) Represent an estimation of where market participants might value an enterprise on a price-to-book basis.
(5) Represents the significant unobservable inputs used to fair value the financial instruments of the limited liability company. The fair value of such financial instruments is the largest component of the valuation of the limited liability company as a whole.

Third-party non-binding valuations are validated by comparing such valuations to internally generated prices based on the Company's models and to recent trading activity in the same or similar instruments.

For those instruments valued using discounted and net discounted cash flows, collateral prepayments, losses, recoveries, and scheduled amortization are projected over the remaining life of the collateral and expressed as a percentage of the collateral's current principal balance. Averages are weighted based on the fair value of the related instrument. In the case of credit default swaps on asset-backed securities, averages are weighted based on each instrument's bond equivalent value. Bond equivalent value represents the investment amount of a corresponding position in the reference obligation, calculated as the difference between the outstanding principal balance of the underlying reference obligation and the fair value, inclusive of accrued interest, of the derivative contract. For those assets valued using the LIBOR Option Adjusted Spread ("OAS") valuation methodology, cash flows are projected using the Company's models over multiple interest rate scenarios, and these projected cash flows are then discounted using the LIBOR rates implied by each interest rate scenario. The LIBOR OAS of an asset is then computed as the unique constant yield spread that, when added to all LIBOR rates in each interest rate scenario generated by the model, will equate (a) the expected present value of the projected asset cash flows over all model scenarios to (b) the actual current market price of the asset. LIBOR OAS is therefore model-dependent. Generally speaking, LIBOR OAS measures the additional yield spread over LIBOR that an asset provides at its current market price after taking into account any interest rate options embedded in the asset. The Company considers the expected timeline to resolution in the determination of fair value for its non-performing commercial and residential loans.

Material changes in any of the inputs above in isolation could result in a significant change to reported fair value measurements. Additionally, fair value measurements are impacted by the interrelationships of these inputs. For example, for instruments subject to prepayments and credit losses, such as non-Agency RMBS and consumer loans and ABS backed by consumer loans, a higher expectation of collateral prepayments will generally be accompanied by a lower expectation of collateral losses. Conversely, higher losses will generally be accompanied by lower prepayments. Because the Company's credit default swaps on asset-backed security holdings represent credit default swap contracts whereby the Company has purchased credit protection, such credit default swaps on asset-backed securities generally have the directionally opposite sensitivity to prepayments, losses, and recoveries as compared to the Company's long securities holdings. Prepayments do not represent a significant input for the Company's commercial mortgage-backed securities and commercial mortgage loans. Losses and recoveries do not represent a significant input for the Company's Agency RMBS interest only securities, given the guarantee of the issuing government agency or government-sponsored enterprise.

The table below reflects the value of the Company's Level 1, Level 2, and Level 3 financial instruments at December 31, 2017:

Description	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Cash equivalents	$26,500	$—	$—	$26,500
Investments, at fair value-				
Agency residential mortgage-backed securities	$—	$989,341	$6,173	$995,514
Private label residential mortgage-backed securities	—	158,369	101,297	259,666
Private label commercial mortgage-backed securities	—	28,398	12,347	40,745
Commercial mortgage loans	—	—	108,301	108,301
Residential mortgage loans	—	—	182,472	182,472
Collateralized loan obligations	—	185,905	24,911	210,816

Consumer loans and asset-backed securities backed by consumer loans	—	—	135,258	135,258
Corporate debt	—	51,246	23,947	75,193
Real estate owned	—	—	26,277	26,277
Corporate equity investments	—	—	37,465	37,465
Total investments, at fair value	—	1,413,259	658,448	2,071,707

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Description (continued)	Level 1	Level 2	Level 3	Total
	(In thousands)			
Financial derivatives–assets, at fair value-				
Credit default swaps on asset-backed securities	$—	$—	$3,140	$3,140
Credit default swaps on corporate bond indices	—	1,429	—	1,429
Credit default swaps on corporate bonds	—	8,888	—	8,888
Credit default swaps on asset-backed indices	—	5,393	—	5,393
Interest rate swaps	—	9,266	—	9,266
Options	3	1	—	4
Futures	45	—	—	45
Total financial derivatives–assets, at fair value	48	24,977	3,140	28,165
Repurchase agreements, at fair value	—	155,949	—	155,949
Total investments, financial derivatives–assets, and repurchase agreements, at fair value	$48	$1,594,185	$661,588	$2,255,821
Liabilities:				
Investments sold short, at fair value-				
Agency residential mortgage-backed securities	$—	$(460,189)	$—	$(460,189)
Government debt	—	(90,149)	—	(90,149)
Corporate debt	—	(55,211)	—	(55,211)
Common stock	(36,691)	—	—	(36,691)
Total investments sold short, at fair value	(36,691)	(605,549)	—	(642,240)
Financial derivatives–liabilities, at fair value-				
Credit default swaps on corporate bond indices	—	(12,367)	—	(12,367)
Credit default swaps on corporate bonds	—	(15,930)	—	(15,930)
Credit default swaps on asset-backed indices	—	(980)	—	(980)
Interest rate swaps	—	(6,015)	—	(6,015)
Futures	(508)	—	—	(508)
Forwards	—	(473)	—	(473)
Total financial derivatives–liabilities, at fair value	(508)	(35,765)	—	(36,273)
Other secured borrowings, at fair value	—	—	(125,105)	(125,105)
Total investments sold short, financial derivatives–liabilities, and other secured borrowings, at fair value	$(37,199)	$(641,314)	$(125,105)	$(803,618)

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The following table identifies the significant unobservable inputs that affect the valuation of the Company's Level 3 assets and liabilities as of December 31, 2017:

Description	Fair Value	Valuation Technique	Unobservable Input	Range Min		Max		Weighted Average	
	(In thousands)								
Private label residential mortgage-backed securities	$ 40,870	Market Quotes	Non Binding Third-Party Valuation	$45.00		$183.00		$81.63	
Collateralized loan obligations	10,288	Market Quotes	Non Binding Third-Party Valuation	85.00		435.00		138.94	
Corporate debt and non-exchange traded corporate equity	6,797	Market Quotes	Non Binding Third-Party Valuation	8.88		105.63		82.94	
Private label commercial mortgage-backed securities	7,577	Market Quotes	Non Binding Third-Party Valuation	5.31		60.55		36.19	
Agency interest only residential mortgage-backed securities	1,225	Market Quotes	Non Binding Third-Party Valuation	10.14		18.21		15.25	
Private label residential mortgage-backed securities	60,427	Discounted Cash Flows	Yield	0.5	%	26.5	%	9.8	%
			Projected Collateral Prepayments	2.1	%	84.7	%	38.3	%
			Projected Collateral Losses	0.9	%	18.2	%	8.6	%
			Projected Collateral Recoveries	0.3	%	31.5	%	11.3	%
			Projected Collateral Scheduled Amortization	12.5	%	90.2	%	41.8	%
								100.0	%
Private label commercial mortgage-backed securities	4,770	Discounted Cash Flows	Yield	4.3	%	42.5	%	18.6	%
			Projected Collateral Losses	1.1	%	5.2	%	2.5	%
			Projected Collateral Recoveries	2.8	%	17.1	%	8.5	%
			Projected Collateral Scheduled Amortization	80.1	%	96.1	%	89.0	%
								100.0	%
Corporate debt and non-exchange traded corporate equity	20,301	Discounted Cash Flows	Yield	3.0	%	16.1	%	10.6	%
Collateralized loan obligations	14,623	Discounted Cash Flows	Yield	7.1	%	62.2	%	15.2	%
			Projected Collateral Prepayments	22.5	%	92.9	%	77.9	%
			Projected Collateral Losses	1.9	%	40.2	%	10.3	%
			Projected Collateral Recoveries	3.4	%	37.2	%	9.5	%
				—	%	4.1	%	2.3	%

			Projected Collateral Scheduled Amortization						
								100.0	%
Consumer loans and asset-backed securities backed by consumer loans	135,258	Discounted Cash Flows	Yield	7.0	%	18.9	%	9.5	%
			Projected Collateral Prepayments	2.2	%	50.1	%	33.5	%
			Projected Collateral Losses	0.4	%	28.6	%	8.2	%
			Projected Collateral Scheduled Amortization	46.8	%	95.2	%	58.3	%
								100.0	%
Performing commercial mortgage loans	84,377	Discounted Cash Flows	Yield	8.0	%	15.4	%	10.7	%
Non-performing commercial mortgage loans and commercial real estate owned	49,610	Discounted Cash Flows	Yield	11.4	%	36.5	%	17.7	%
			Months to Resolution	4.0		17.0		9.5	

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(continued) Description	Fair Value	Valuation Technique	Unobservable Input	Range Min		Max		Weighted Average	
	(In thousands)								
Performing residential mortgage loans	$ 42,030	Discounted Cash Flows	Yield	1.6	%	18.8	%	6.2	%
Securitized residential mortgage loans(1)	132,424	Discounted Cash Flows	Yield	3.5	%	3.5	%	3.5	%
Non-performing residential mortgage loans and residential real estate owned	8,609	Discounted Cash Flows	Yield	2.8	%	34.5	%	8.9	%
			Months to Resolution(2)	1.9		40.5		25.6	
Credit default swaps on asset-backed securities	3,140	Net Discounted Cash Flows	Projected Collateral Prepayments	19.8	%	26.5	%	22.4	%
			Projected Collateral Losses	14.6	%	23.8	%	19.7	%
			Projected Collateral Recoveries	5.8	%	14.3	%	10.6	%
			Projected Collateral Scheduled Amortization	45.5	%	51.0	%	47.3	%
								100.0	%
Agency interest only residential mortgage-backed securities	4,948	Option Adjusted Spread ("OAS")	LIBOR OAS(3)	381		3,521		730	
			Projected Collateral Prepayments	51.2	%	100.0	%	69.1	%
			Projected Collateral Scheduled Amortization	0.0	%	48.8	%	30.9	%
								100.0	%
Non-exchange traded common equity investment in mortgage-related entity	2,814	Enterprise Value	Equity Price-to-Book(4)	2.0x		2.0x		2.0x	
Non-exchange traded preferred equity investment in mortgage-related entity	20,774	Enterprise Value	Equity Price-to-Book(4)	0.9x		0.9x		0.9x	
Non-controlling equity interest in limited liability company	5,033	Market Quotes	Non Binding Third-Party Valuation of the Underlying Assets(5)	$96.91		$96.91		$96.91	
Non-controlling equity interest in limited liability company	5,693	Discounted Cash Flows	Yield(5)	9.1%		9.1%		9.1%	
Other secured borrowings, at fair value(1)	(125,105)	Discounted Cash Flows	Yield	2.8%		2.8%		2.8%	

(1) Securitized residential mortgage loans and Other secured borrowings, at fair value, represent financial assets and liabilities of the Company's CFE as discussed in Note 2.
(2) Excludes certain loans that are re-performing.
(3) Shown in basis points.
(4) Represent an estimation of where market participants might value an enterprise on a price-to-book basis.
(5)

Represents the significant unobservable inputs used to fair value the financial instruments of the limited liability company. The fair value of such financial instruments is the largest component of the valuation of the limited liability company as a whole.

Third-party non-binding valuations are validated by comparing such valuations to internally generated prices based on the Company's models and to recent trading activity in the same or similar instruments.

For those instruments valued using discounted and net discounted cash flows, collateral prepayments, losses, recoveries, and scheduled amortization are projected over the remaining life of the collateral and expressed as a percentage of the collateral's current principal balance. Averages are weighted based on the fair value of the related instrument. In the case of credit default swaps on asset-backed securities, averages are weighted based on each instrument's bond equivalent value. Bond equivalent value represents the investment amount of a corresponding position in the reference obligation, calculated as the difference between the outstanding principal balance of the underlying reference obligation and the fair value, inclusive of accrued interest, of the derivative contract. For those assets valued using the LIBOR OAS valuation methodology, cash flows are projected using the Company's models over multiple interest rate scenarios, and these projected cash flows are then discounted using the LIBOR rates implied by each interest rate scenario. The LIBOR OAS of an asset is then computed as the unique constant yield spread that, when added to all LIBOR rates in each interest rate scenario generated by the model, will equate (a) the expected present value of the projected asset cash flows over all model scenarios to (b) the actual current market price of the asset. LIBOR OAS is therefore model-dependent. Generally speaking, LIBOR OAS measures the additional yield spread over LIBOR that an asset provides at its current market price after taking into account any interest rate options embedded in the asset.

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Material changes in any of the inputs above in isolation could result in a significant change to reported fair value measurements. Additionally, fair value measurements are impacted by the interrelationships of these inputs. For example, for instruments subject to prepayments and credit losses, such as non-Agency RMBS and consumer loans and ABS backed by consumer loans, a higher expectation of collateral prepayments will generally be accompanied by a lower expectation of collateral losses. Conversely, higher losses will generally be accompanied by lower prepayments. Because the Company's credit default swaps on asset-backed security holdings represent credit default swap contracts whereby the Company has purchased credit protection, such credit default swaps on asset-backed securities generally have the directionally opposite sensitivity to prepayments, losses, and recoveries as compared to the Company's long securities holdings. Prepayments do not represent a significant input for the Company's commercial mortgage-backed securities and commercial mortgage loans. Losses and recoveries do not represent a significant input for the Company's Agency RMBS interest only securities, given the guarantee of the issuing government agency or government-sponsored enterprise.

The tables below include a roll-forward of the Company's financial instruments for the three- and six-month periods ended June 30, 2018 and 2017 (including the change in fair value), for financial instruments classified by the Company within Level 3 of the valuation hierarchy.

Level 3—Fair Value Measurement Using Significant Unobservable Inputs:

Three-Month Period Ended June 30, 2018

(In thousands)	Ending Balance as of March 31, 2018	Accreted Discounts / (Amortized Premiums)	Net Realized Gain/(Loss)	Change in Net Unrealized Gain/(Loss)	Purchases/ Payments	Sales/ Issuances	Transfers Into Level 3	Transfers Out of Level 3	Ending Balance as of June 30, 2018
Assets:									
Investments, at fair value-									
Agency residential mortgage-backed securities	$6,128	$(547)	$18	$(41)	$1,533	$(569)	$—	$(633)	$5,889
Private label residential mortgage-backed securities	111,862	(1,889)	211	(1,845)	13,596	(10,999)	3,073	(17,613)	96,396
Private label commercial mortgage-backed securities	13,709	28	(104)	784	—	(4,194)	—	(1,462)	8,761
Commercial mortgage loans	109,294	226	553	610	20,132	(25,864)	—	—	104,951
Residential mortgage loans	240,781	(464)	637	(267)	76,785	(24,000)	—	—	293,472
Collateralized loan obligations	27,479	(377)	2	300	11,442	(7,889)	—	(24,848)	6,109
Consumer loans and asset-backed securities backed by consumer loans	148,422	(6,955)	450	3,782	83,069	(29,514)	—	—	199,254
Corporate debt	18,000	59	96	(761)	448	(1,944)	—	(7,048)	8,850
Secured notes	—	92	—	(234)	11,268	—	—	—	11,126
Real estate owned	29,110	—	10	(1)	5,472	(252)	—	—	34,339

Corporate equity investments	50,869	—	1,182	(1)	—	(7,282)	—	—	44,768
Total investments, at fair value	755,654	(9,827)	3,055	2,326	223,745	(112,507)	3,073	(51,604)	813,915
Financial derivatives–assets, at fair value-									
Credit default swaps on asset-backed securities	3,069	—	161	(478)	22	(183)	—	—	2,591
Total financial derivatives– assets, at fair value	3,069	—	161	(478)	22	(183)	—	—	2,591
Total investments and financial derivatives–assets, at fair value	$758,723	$(9,827)	$3,216	$1,848	$223,767	$(112,690)	$3,073	$(51,604)	$816,506
Liabilities:									
Other secured borrowings, at fair value	$(113,775)	$—	$—	$414	$12,261	$—	$—	$—	$(101,100)
Total other secured borrowings, at fair value	$(113,775)	$—	$—	$414	$12,261	$—	$—	$—	$(101,100)

All amounts of net realized and change in net unrealized gain (loss) in the table above are reflected in the accompanying Consolidated Statement of Operations. The table above incorporates changes in net unrealized gain (loss) for both Level 3

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financial instruments held by the Company at June 30, 2018, as well as Level 3 financial instruments disposed of by the Company during the three-month period ended June 30, 2018. For Level 3 financial instruments held by the Company at June 30, 2018, change in net unrealized gain (loss) of $1.6 million, $(0.5) million, and $0.4 million, for the three-month period ended June 30, 2018 relate to investments, financial derivatives–assets, and other secured borrowings, at fair value, respectively.

At June 30, 2018, the Company transferred $51.6 million of securities from Level 3 to Level 2 and $3.1 million from Level 2 to Level 3. Transfers between these hierarchy levels were based on the availability of sufficient observable inputs to meet Level 2 versus Level 3 criteria. The leveling of each financial instrument is reassessed at the end of each period, and is based on pricing information received from third-party pricing sources.

Three-Month Period Ended June 30, 2017

(In thousands)	Ending Balance as of March 31, 2017	Accreted Discounts / (Amortized Premiums)	Net Realized Gain/ (Loss)	Change in Net Unrealized Gain/(Loss)	Purchases/ Payments	Sales/ Issuances	Transfers Into Level 3	Transfers Out of Level 3	Ending Balance as of June 30, 2017
Assets:									
Investments, at fair value-									
Agency residential mortgage-backed securities	$29,425	$(2,320)	$(402)	$(163)	$(417)	$(126)	$—	$(21,101)	$4,896
Private label residential mortgage-backed securities	80,332	(476)	1,137	3,327	27,972	(9,733)	16,089	(39,525)	79,123
Private label commercial mortgage-backed securities	41,300	276	(3,338)	4,991	20	(16,734)	—	(12,706)	13,809
Commercial mortgage loans	62,508	101	79	(56)	4,500	(1,236)	—	—	65,896
Residential mortgage loans	112,650	537	1,133	(481)	37,048	(14,790)	—	—	136,097
Collateralized loan obligations	70,561	(4,849)	532	479	18,157	(23,233)	—	(19,111)	42,536
Consumer loans and asset-backed securities backed by consumer loans(1)	107,842	(3,208)	478	(555)	25,594	(21,480)	—	—	108,671
Corporate debt	59,609	154	216	29	36,397	(75,870)	—	—	20,535
Real estate owned	25,390	—	365	(401)	54	(431)	—	—	24,977
Corporate equity investments(1)	33,917	—	1,519	(994)	6,775	(5,519)	—	—	35,698
Total investments, at fair value	623,534	(9,785)	1,719	6,176	156,100	(169,152)	16,089	(92,443)	532,238
Financial derivatives–assets, at fair value-									
	5,828	—	331	(721)	10	(341)	—	—	5,107

Credit default swaps on asset-backed securities									
Total return swaps	—	—	65	—	—	(65)	—	—	—
Total financial derivatives– assets, at fair value	5,828	—	396	(721)	10	(406)	—	—	5,107
Total investments and financial derivatives–assets, at fair value	$629,362	$(9,785)	$2,115	$5,455	$156,110	$(169,558)	$16,089	$(92,443)	$537,345
Liabilities:									
Financial derivatives–liabilities, at fair value-									
Credit default swaps on asset-backed securities	$(218)	$—	$(19)	$12	$446	$(428)	$—	$—	$(207)
Total return swaps	—	—	(85)	—	21	64	—	—	—
Total financial derivatives– liabilities, at fair value	$(218)	$—	$(104)	$12	$467	$(364)	$—	$—	$(207)

All amounts of net realized and change in net unrealized gain (loss) in the table above are reflected in the accompanying Consolidated Statement of Operations. The table above incorporates changes in net unrealized gain (loss) for both Level 3 financial instruments held by the Company at June 30, 2017, as well as Level 3 financial instruments disposed of by the Company during the three-month period ended June 30, 2017. For Level 3 financial instruments held by the Company at

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June 30, 2017, change in net unrealized gain (loss) of $5.1 million, $(0.7) million, and $0.01 million for the three-month period ended June 30, 2017 relate to investments, financial derivatives–assets, and financial derivatives–liabilities, respectively.

As of June 30, 2017, the Company modified its procedures to determine the level within the hierarchy for certain financial instruments. Under the revised procedure, the Company examines financial instruments individually rather than in cohorts of like instruments as it had previously. At June 30, 2017, the Company transferred $92.4 million of securities from Level 3 to Level 2 and $16.1 million from Level 2 to Level 3. Transfers between these hierarchy levels were based on the availability of sufficient observable inputs to meet Level 2 versus Level 3 criteria. The leveling of each financial instrument is reassessed at the end of each period, and is based on pricing information received from third-party pricing sources.

Six-Month Period Ended June 30, 2018

(In thousands)	Ending Balance as of December 31, 2017	Accreted Discounts / (Amortized Premiums)	Net Realized Gain/ (Loss)	Change in Net Unrealized Gain/(Loss)	Purchases/ Payments	Sales/ Issuances	Transfers Into Level 3	Transfers Out of Level 3	Ending Balance as of June 30, 2018
Assets:									
Investments, at fair value-									
Agency residential mortgage-backed securities	$6,173	$(1,172)	$57	$229	$2,635	$(957)	$—	$(1,076)	$5,889
Private label residential mortgage-backed securities	101,297	156	2,719	(986)	24,623	(29,439)	9,301	(11,275)	96,396
Private label commercial mortgage-backed securities	12,347	(163)	1,618	1,043	8,046	(13,890)	—	(240)	8,761
Commercial mortgage loans	108,301	844	884	449	24,119	(29,646)	—	—	104,951
Residential mortgage loans	182,472	(1,179)	583	(920)	149,825	(37,309)	—	—	293,472
Collateralized loan obligations	24,911	78	3	527	21,537	(16,099)	—	(24,848)	6,109
Consumer loans and asset-backed securities backed by consumer loans	135,258	(12,851)	950	7,585	125,203	(56,891)	—	—	199,254
Corporate debt	23,947	(56)	148	(396)	905	(8,650)	—	(7,048)	8,850
Secured notes	—	92	—	(234)	11,268	—	—	—	11,126
Real estate owned	26,277	—	(447)	615	9,570	(1,676)	—	—	34,339
Corporate equity investments	37,465	—	1,182	4,325	9,078	(7,282)	—	—	44,768
Total investments, at fair value	658,448	(14,251)	7,697	12,237	386,809	(201,839)	9,301	(44,487)	813,915

Financial derivatives–assets, at fair value-Credit default swaps on asset-backed securities	3,140	—	247	(549)	45	(292)	—	—	2,591
Total financial derivatives– assets, at fair value	3,140	—	247	(549)	45	(292)	—	—	2,591
Total investments and financial derivatives–assets, at fair value	$661,588	$(14,251)	$7,944	$11,688	$386,854	$(202,131)	$9,301	$(44,487)	$816,506
Liabilities:									
Other secured borrowings, at fair value	$(125,105)	$—	$—	$1,198	$22,807	$—	$—	$—	$(101,100)
Total other secured borrowings, at fair value	$(125,105)	$—	$—	$1,198	$22,807	$—	$—	$—	$(101,100)

All amounts of net realized and change in net unrealized gain (loss) in the table above are reflected in the accompanying Consolidated Statement of Operations. The table above incorporates changes in net unrealized gain (loss) for both Level 3 financial instruments held by the Company at June 30, 2018, as well as Level 3 financial instruments disposed of by the Company during the six-month period ended June 30, 2018. For Level 3 financial instruments held by the Company at June 30, 2018, change in net unrealized gain (loss) of $10.5 million, $(0.5) million, and $1.2 million, for the six-month period ended June 30, 2018 relate to investments, financial derivatives–assets, and other secured borrowings, at fair value, respectively.

At June 30, 2018, the Company transferred $44.5 million of securities from Level 3 to Level 2 and $9.3 million from Level 2 to Level 3. Transfers between these hierarchy levels were based on the availability of sufficient observable inputs to

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meet Level 2 versus Level 3 criteria. The leveling of each financial instrument is reassessed at the end of each period, and is based on pricing information received from third-party pricing sources.

Six-Month Period Ended June 30, 2017

(In thousands)	Ending Balance as of December 31, 2016	Accreted Discounts / (Amortized Premiums)	Net Realized Gain/ (Loss)	Change in Net Unrealized Gain/(Loss)	Purchases/ Payments	Sales/ Issuances	Transfers Into Level 3	Transfers Out of Level 3	Ending Balance as of June 30, 2017
Assets:									
Investments, at fair value-									
Agency residential mortgage-backed securities	$29,622	$(4,913)	$(437)	$65	$1,785	$(125)	$—	$(21,101)	$4,896
Private label residential mortgage-backed securities	90,083	1,036	434	6,034	26,800	(29,349)	11,348	(27,263)	79,123
Private label commercial mortgage-backed securities	43,268	632	(2,996)	6,402	20	(20,811)	—	(12,706)	13,809
Commercial mortgage loans	61,129	631	416	1,150	27,545	(24,975)	—	—	65,896
Residential mortgage loans	84,290	678	1,081	(77)	71,186	(21,061)	—	—	136,097
Collateralized loan obligations	44,956	(6,032)	1,453	3,011	56,869	(38,609)	—	(19,112)	42,536
Consumer loans and asset-backed securities backed by consumer loans	107,157	(6,264)	(74)	281	50,012	(42,441)	—	—	108,671
Corporate debt	25,004	253	548	187	83,492	(88,949)	—	—	20,535
Real estate owned	3,349	—	424	(295)	24,211	(2,712)	—	—	24,977
Corporate equity investments	29,392	—	1,519	(723)	11,775	(6,265)	—	—	35,698
Total investments, at fair value	518,250	(13,979)	2,368	16,035	353,695	(275,297)	11,348	(80,182)	532,238
Financial derivatives–assets, at fair value-									
Credit default swaps on asset-backed securities	5,326	—	368	(218)	68	(437)	—	—	5,107
Total return swaps	155	—	222	(155)	—	(222)	—	—	—
Warrants	106	—	(100)	(6)	—	—	—	—	—

Total financial derivatives– assets at fair value	5,587	—	490	(379)	68	(659)	—	—	5,107
Total investments and financial derivatives–assets, at fair value	$523,837	$(13,979)	$2,858	$15,656	$353,763	$(275,956)	$11,348	$(80,182)	$537,345
Liabilities:									
Financial derivatives–liabilities, at fair value-									
Credit default swaps on asset-backed securities	$(256)	$—	$(465)	$477	$465	$(428)	$—	$—	$(207)
Total return swaps	(249)	—	(292)	250	304	(13)	—	—	—
Total financial derivatives–liabilities, at fair value	$(505)	$—	$(757)	$727	$769	$(441)	$—	$—	$(207)

All amounts of net realized and change in net unrealized gain (loss) in the table above are reflected in the accompanying Consolidated Statement of Operations. The table above incorporates changes in net unrealized gain (loss) for both Level 3 financial instruments held by the Company at June 30, 2017, as well as Level 3 financial instruments disposed of by the Company during the six-month period ended June 30, 2017. For Level 3 financial instruments held by the Company at June 30, 2017, change in net unrealized gain (loss) of $9.0 million, $(0.2) million, and $0.05 million, for the six-month period ended June 30, 2017 relate to investments, financial derivatives–assets, and financial derivatives–liabilities, respectively.

As of June 30, 2017, the Company modified certain of its procedures to determine the level within the hierarchy for certain financial instruments. Under the revised procedure, the Company examines financial instruments individually rather than in cohorts of like instruments as it had previously. At June 30, 2017, the Company transferred $80.2 million of securities from Level 3 to Level 2 and $11.3 million from Level 2 to Level 3. Transfers between these hierarchy levels were based on the

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availability of sufficient observable inputs to meet Level 2 versus Level 3 criteria. The leveling of each financial instrument is reassessed at the end of each period, and is based on pricing information received from third-party pricing sources.

There were no transfers of financial instruments between Level 1 and Level 2 during the three- or six-month periods ended June 30, 2018 and 2017.

Not included in the disclosures above are the Company's other financial instruments, which are carried at cost and include, Cash, Due from brokers, Due to brokers, Reverse repurchase agreements, Other secured borrowings, and the Company's unsecured long-term debt, or the "Senior Notes," which is reflected on the Consolidated Statement of Assets, Liabilities, and Equity in Senior notes, net. Cash includes cash held in various accounts including an interest bearing overnight account for which fair value equals the carrying value; such assets are considered Level 1 assets. Due from brokers and Due to brokers include collateral transferred to or received from counterparties, along with receivables and payables for open and/or closed derivative positions. These receivables and payables are short term in nature and any collateral transferred consists primarily of cash; carrying value of these items approximates fair value and such items are considered Level 1 assets and liabilities. The Company's reverse repurchase agreements and Other secured borrowings are carried at cost, which approximates fair value due to their short term nature. Reverse repurchase agreements and Other secured borrowings are considered Level 2 assets and liabilities based on the adequacy of the associated collateral and their short term nature. The Company estimates the fair value of the Senior Notes at $84.4 million and $85.6 million as of June 30, 2018 and December 31, 2017, respectively. The Senior Notes are considered Level 3 liabilities given the relative unobservability of the most significant inputs to valuation estimation as well as the lack of trading activity of these instruments.

4. To Be Announced RMBS

In addition to investing in pools of Agency RMBS, the Company transacts in the forward settling TBA market. Pursuant to these TBA transactions, the Company agrees to purchase or sell, for future delivery, Agency RMBS with certain principal and interest terms and certain types of underlying collateral, but the particular Agency RMBS to be delivered is not identified until shortly before the TBA settlement date. TBAs are liquid and have quoted market prices and represent the most actively traded class of MBS. The Company accounts for its TBAs as purchases and sales and uses TBAs primarily for hedging purposes, typically in the form of short positions. However, the Company may also invest in TBAs for speculative purposes, including holding long positions. Overall, the Company typically holds a net short position.

The Company does not generally take delivery of TBAs; rather, it settles the associated receivable and payable with its trading counterparties on a net basis. Transactions with the same counterparty for the same TBA that result in a reduction of the position are treated as extinguished. The fair value of the Company's long positions in TBA contracts are reflected on the Consolidated Condensed Schedule of Investments under TBA–Fixed-Rate Agency Securities and the fair value of the Company's positions in TBA contracts sold short are reflected on the Consolidated Condensed Schedule of Investments under TBA–Fixed-Rate Agency Securities Sold Short. The payables and receivables related to the Company's TBA securities are included on the Consolidated Statement of Assets, Liabilities, and Equity in Payable for securities purchased and Receivable for securities sold, respectively.

The below table details TBA assets, liabilities, and the respective related payables and receivables as of June 30, 2018 and December 31, 2017:

	As of	
	June 30, 2018	December 31, 2017
	(In thousands)	
Assets:		
TBA securities, at fair value (Current principal: $306,847 and $118,806, respectively)	$317,013	$123,680
Receivable for securities sold relating to unsettled TBA sales	617,433	460,666
Liabilities:		
TBA securities sold short, at fair value (Current principal: -$608,800 and -$442,197, respectively)	$(618,665)	$(460,189)

Payable for securities purchased relating to unsettled TBA purchases	(317,088)	(123,918)
Net short TBA securities, at fair value	(301,652)	(336,509)

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5. Financial Derivatives

Gains and losses on the Company's derivative contracts for the three- and six-month periods ended June 30, 2018 and 2017 are summarized in the tables below:

Three- and Six-Month Periods Ended June 30, 2018:

Derivative Type	Primary Risk Exposure	Three-Month Period Ended June 30, 2018		Six-Month Period Ended June 30, 2018	
		Net Realized Gain/(Loss)(1)	Change in Net Unrealized Gain/(Loss)(2)	Net Realized Gain/(Loss)(1)	Change in Net Unrealized Gain/(Loss)(2)
(In thousands)					
Credit default swaps on asset-backed securities	Credit	$161	$ (477)	$247	$ (549)
Credit default swaps on asset-backed indices	Credit	(204)	1	(2,046)	1,453
Credit default swaps on corporate bond indices	Credit	(675)	866	(2,237)	2,428
Credit default swaps on corporate bonds	Credit	(1,472)	3,063	2,996	(792)
Total return swaps	Equity Market/Credit	257	(331)	423	(313)
Interest rate swaps	Interest Rate	(677)	2,091	(1,500)	7,130
Futures	Interest Rate/Currency	1,684	1,542	923	981
Forwards	Currency	1,104	100	(69)	485
Options	Interest Rate/ Equity Market	(1)	—	(62)	76
Total		$177	$ 6,855	$(1,325)	$ 10,899

(1) Includes gain/(loss) on foreign currency transactions on derivatives in the amount of $22 thousand and $(0.2) million, for the three- and six-month periods ended June 30, 2018, which is included on the Consolidated Statement of Operations in Realized gain (loss) on foreign currency transactions.

(2) Includes foreign currency translation on derivatives in the amount of $0.2 million and $0.3 million, for the three- and six-month periods ended June 30, 2018, which is included on the Consolidated Statement of Operations in Change in net unrealized gain (loss) on foreign currency translation.

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Three- and Six-Month Periods Ended June 30, 2017:

Derivative Type	Primary Risk Exposure	Three-Month Period Ended June 30, 2017 Net Realized Gain/(Loss)(1)	Three-Month Period Ended June 30, 2017 Change in Net Unrealized Gain/(Loss)(2)	Six-Month Period Ended June 30, 2017 Net Realized Gain/(Loss)(1)	Six-Month Period Ended June 30, 2017 Change in Net Unrealized Gain/(Loss)(2)
(In thousands)					
Credit default swaps on asset-backed securities	Credit	$312	$ (709)	$(97)	$ 259
Credit default swaps on asset-backed indices	Credit	(1,283)	(488)	(2,456)	(2,610)
Credit default swaps on corporate bond indices	Credit	(886)	45	(1,172)	18
Credit default swaps on corporate bonds	Credit	(548)	(666)	458	(995)
Total return swaps	Equity Market/Credit	(603)	10	(1,356)	148
Interest rate swaps	Interest Rates	(834)	(960)	(580)	(801)
Futures	Interest Rates	(145)	53	(178)	37
Forwards	Currency	(2,523)	(1,194)	(3,345)	(864)
Warrants	Equity Market	—	—	(100)	(6)
Mortgage loan purchase commitments	Interest Rates	—	—	—	31
Options	Equity Market/Credit	(78)	6	(149)	17
Total		$(6,588)	$ (3,903)	$(8,975)	$ (4,766)

(1) Includes gain/(loss) on foreign currency transactions on derivatives in the amount of $(19) thousand and $(3) thousand, for the three- and six-month periods ended June 30, 2017, which is included on the Consolidated Statement of Operations in Realized gain (loss) on foreign currency transactions.

(2) Includes foreign currency translation on derivatives in the amount of $(90) thousand and $(126) thousand, for the three- and six-month periods ended June 30, 2017, which is included on the Consolidated Statement of Operations in Change in net unrealized gain (loss) on foreign currency translation.

The tables below detail the average notional values of the Company's financial derivatives, using absolute value of month end notional values, for the six-month period ended June 30, 2018 and the year ended December 31, 2017:

Derivative Type	Six-Month Period Ended June 30, 2018	Year Ended December 31, 2017
	(In thousands)	
Interest rate swaps	$1,113,420	$1,306,853
Credit default swaps	601,794	531,008
Total return swaps	36,059	19,760
Futures	101,664	48,244
Options	124,741	94,415
Forwards	44,541	76,784
Warrants	—	378
Mortgage loan purchase commitments	—	1,585

From time to time the Company enters into credit derivative contracts for which the Company sells credit protection ("written credit derivatives"). As of both June 30, 2018 and December 31, 2017, all of the Company's open written credit derivatives were credit default swaps on either mortgage/asset-backed indices (ABX and CMBX indices) or corporate bond indices (CDX), collectively referred to as credit indices, or on individual corporate bonds, for which the Company receives periodic payments at fixed rates from credit protection buyers, and is obligated to make payments to the credit protection buyer upon the occurrence of a "credit event" with respect to underlying reference assets.

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Written credit derivatives held by the Company at June 30, 2018 and December 31, 2017, are summarized below:

Credit Derivatives	June 30, 2018	December 31, 2017
(In thousands)		
Fair Value of Written Credit Derivatives, Net	$ (350)	$ (4,770)
Fair Value of Purchased Credit Derivatives Offsetting Written Credit Derivatives with Third Parties (1)	286	(3,582)
Notional Value of Written Credit Derivatives (2)	150,542	177,588
Notional Value of Purchased Credit Derivatives Offsetting Written Credit Derivatives with Third Parties (1)	(21,015)	(88,400)

(1) Offsetting transactions with third parties include purchased credit derivatives which have the same reference obligation.

(2) The notional value is the maximum amount that a seller of credit protection would be obligated to pay, and a buyer of credit protection would receive, upon occurrence of a "credit event." Movements in the value of credit default swap transactions may require the Company or the counterparty to post or receive collateral. Amounts due or owed under credit derivative contracts with an International Swaps and Derivatives Association, or "ISDA," counterparty may be offset against amounts due or owed on other credit derivative contracts with the same ISDA counterparty. As a result, the notional value of written credit derivatives involving a particular underlying reference asset or index has been reduced (but not below zero) by the notional value of any contracts where the Company has purchased credit protection on the same reference asset or index with the same ISDA counterparty.

A credit default swap on a credit index or a corporate bond typically terminates at the stated maturity date in the case of corporate indices or bonds, or, in the case of ABX and CMBX indices, the date that all of the reference assets underlying the index are paid off in full, retired, or otherwise cease to exist. Implied credit spreads may be used to determine the market value of such contracts and are reflective of the cost of buying/selling credit protection. Higher spreads would indicate a greater likelihood that a seller will be obligated to perform (i.e., make protection payments) under the contract. In situations where the credit quality of the underlying reference assets has deteriorated, the percentage of notional values that would be paid up front to enter into a new such contract ("points up front") is frequently used as an indication of credit risk. Credit protection sellers entering the market in such situations would expect to be paid points up front corresponding to the approximate fair value of the contract. For the Company's written credit derivatives that were outstanding at June 30, 2018, implied credit spreads on such contracts ranged between 36.4 and 1,387.9 basis points. For the Company's written credit derivatives that were outstanding at December 31, 2017, implied credit spreads on such contracts ranged between 15.4 and 1,945.7 basis points. Excluded from these spread ranges are contracts outstanding for which the individual spread is greater than 2,000 basis points. The Company believes that these contracts would be quoted based on estimated points up front. The total fair value of contracts with individual implied credit spreads in excess of 2,000 basis points was $(0.3) million and $(0.4) million as of June 30, 2018 and December 31, 2017, respectively. Estimated points up front on these contracts as of June 30, 2018 ranged between 51.9 and 72.0 points, and as of December 31, 2017 ranged between 51.4 and 71.6 points. Total net up-front payments (paid) or received relating to written credit derivatives outstanding at June 30, 2018 and December 31, 2017 were $(0.8) million and $(5.5) million, respectively.

6. Securitization Transactions

Participation in Multi-Seller Consumer Loan Securitization

In August 2016, the Company participated in a securitization transaction whereby the Company, together with another entity managed by Ellington (the "co-participant"), sold consumer loans with an aggregate unpaid principal balance of approximately $124 million to a newly formed securitization trust (the "Issuer"). Of the $124 million in loans sold to the Issuer, the Company's share was 51% while the co-participant's share was 49%. The transfer was accounted for as a sale in accordance with ASC 860-10. As a result of the sale the Company recognized a realized loss in the amount of $(0.1) million. Pursuant to the securitization, the Issuer issued senior and subordinated notes in the principal amount of $87 million and $18.7 million, respectively. Trust certificates representing beneficial ownership of the Issuer were

also issued. In connection with the transaction, and through a jointly owned newly formed entity (the "Acquiror"), the Company and the co-participant acquired all of the subordinated notes as well as the trust certificates in the Issuer. The Company and the co-participant acquired 51% and 49%, respectively, of the interests in the Acquiror. During 2017, at the co-participant's direction, the Acquiror sold the portion of the subordinated notes beneficially owned by the co-participant, and as a result as of both June 30, 2018 and December 31, 2017, the Company's total interest in the Acquiror had increased to approximately 75%. The Company's interest in the Acquiror is accounted for as a beneficial interest and is included on the Consolidated Condensed Schedule of Investments in Corporate Equity Investments.
The notes and trust certificates issued by the Issuer are backed by the cash flows from the underlying consumer loans. If there are breaches of representations and warranties with respect to any underlying consumer loans, the Company could, under certain circumstances, be required to purchase or replace such loans. Absent such breaches, the Company has no obligation to repurchase or replace any underlying consumer loans that become delinquent or otherwise default. Cash flows collected on the

underlying consumer loans are distributed to service providers to the trust, noteholders, and trust certificate holders in accordance with the contractual priority of payments. In addition, another affiliate of Ellington (the "Administrator"), acts as the administrator for the securitization and is paid a monthly fee for its services.
While the Company retains credit risk in the securitization trust through its beneficial ownership of the most subordinated interests of the securitization trust, which are the first to absorb credit losses on the securitized assets, the Company does not retain control of these assets or the power to direct the activities of the Issuer that most significantly impact the Issuer's economic performance. See Note 9 for further details on the Company’s participation in the multi-seller consumer loan securitization.
Participation in CLO Transactions
Since June 2017, an affiliate of Ellington sponsored three CLO securitization transactions (the "CLO I Securitization," the "CLO II Securitization," and the "CLO III Securitization"; collectively, the "Ellington-sponsored CLO Securitizations"), collateralized by corporate loans and managed by an affiliate of Ellington (the "CLO Manager"). Ellington, the Company, several other affiliates of Ellington, and, in the case of the CLO II Securitization and the CLO III Securitization, several third parties participated in the Ellington-sponsored CLO Securitizations (collectively, the "CLO Co-Participants").
Pursuant to each Ellington-sponsored CLO Securitization, a newly formed securitization trust (the "CLO I Issuer," the "CLO II Issuer," and the "CLO III Issuer"; collectively, the "CLO Issuers") issued various classes of notes, which were in turn sold to unrelated third parties and the applicable CLO Co-Participants. The notes issued by each CLO Issuer are backed by the cash flows from the underlying corporate loans (including loans to be purchased during a reinvestment period), which are applied in accordance with the contractual priority of payments.
In the case of the CLO I Securitization, the Company and one CLO Co-Participant transferred corporate loans with a fair value of approximately $62.0 million and $141.7 million, respectively, to the CLO I Issuer in exchange for cash. The Company has no obligation to repurchase or replace securitized corporate loans that subsequently become delinquent or are otherwise in default, and the transfer by the Company was accounted for as a sale in accordance with ASC 860-10. As a result of the sale, the Company recognized a realized gain in the amount of $0.2 million.
In the case of the CLO II Securitization and the CLO III Securitization, the Company, along with certain other CLO Co-Participants, advanced funds in the form of loans (the "Advances") to the applicable CLO Issuers prior to the CLO pricing date to enable it to establish warehouse facilities for the purpose of acquiring the assets to be securitized. Pursuant to their terms, the Advances are required to be repaid at the closing of the respective securitization.
In each Ellington-sponsored CLO Securitization, the Company and each of the applicable CLO Co-Participants purchased various classes of notes issued by the corresponding CLO Issuer. In accordance with the Company's accounting policy for recording certain investment transactions on trade date, these purchases were recorded on the CLO pricing date rather than the CLO closing date. In addition, in the case of each of the CLO I Securitization and the CLO II Securitization, the Company and the CLO Co-Participants also funded a newly formed entity (the "CLO I Risk Retention Vehicle" and the "CLO II Risk Retention Vehicle") to purchase a sufficient portion of the unsecured subordinated notes issued by the applicable CLO Issuer so as to comply with risk retention rules (the "Risk Retention Rules") under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, as further described below.
With respect to each Ellington-sponsored CLO Securitization, the Company subsequently sold a portion of the notes that it had originally purchased. In addition to the Company's remaining investments in these notes, the Company held an approximate 25% ownership interest in the CLO I Risk Retention Vehicle, with a fair value of $5.3 million and $5.0 million, as of June 30, 2018 and December 31, 2017, respectively, which is included on the Company's Consolidated Condensed Schedule of Investments in Corporate Equity Investments.
Under the Risk Retention Rules, sponsors of securitizations are generally required to retain at least 5% of the economic interest in the credit risk of the securitized assets. However, in February 2018, the U.S. Court of Appeals for the District of Columbia Circuit, or the "Court of Appeals," ruled that open-market CLO securitizations are exempt from the Risk Retention Rules, as long as certain requirements are met, and in April 2018 the Court of Appeals gave effect to this ruling. As a result, Risk Retention Rules no longer apply to managers of open-market CLOs, and those managers are now permitted to sell the interests in existing open-market CLOs that were originally retained in order to comply with the Risk Retention Rules, as long as those securitizations meet the requirements for exemption. After the

decision by the Court of Appeals, the CLO Manager determined that the CLO II Securitization met the requirements for exemption from the Risk Retention Rules and subsequently distributed, in-kind, the subordinated notes held in the CLO II Risk Retention Vehicle to the CLO Co-Participants pro rata based on each CLO Co-Participant's respective ownership percentage of the CLO II Risk Retention Vehicle. The subordinated notes distributed to the Company from the CLO II Risk Retention Vehicle had a face amount of $5.6 million. Such notes had a fair value of $5.0 million as of June 30, 2018 and are included on the Company's Consolidated Condensed Schedule of Investments in Collateralized Loan Obligations and in the table below. The Manager of CLO III Securitization was not required to establish a risk retention vehicle because the transaction closed subsequent to the effectiveness of the ruling by the Court of Appeals.

However, the CLO I Securitization may not currently meet the requirements for exemption from the Risk Retention Rules, and as a result the CLO Manager may still be subject to the Risk Retention Rules with respect to the CLO I Securitization. The Company is not required to hold its investment in the CLO I Risk Retention Vehicle for any minimum period; only the CLO Manager may have that requirement under the Risk Retention Rules. The CLO Manager has full and exclusive management and control of the business of the CLO I Risk Retention Vehicle, and the Company does not retain control of the assets nor does it have the power to direct the activities of either the CLO I Issuer or the CLO I Risk Retention Vehicle that most significantly impact each entity's economic performance.

The following table details the Company's investments in notes issued by the Ellington-sponsored CLO Securitizations:

CLO Issuer[1]	CLO Pricing Date	CLO Closing Date	Total Face Amount of Notes Issued	Face Amount of Notes Initially Purchased	Aggregate Purchase Price	Notes Held[3] as of June 30, 2018	Notes Held[3] as of December 31, 2017
			(In thousands)	(In thousands)		(In thousands)	
CLO I Issuer[2]	5/17	6/17	$ 373,550	$ 36,606 [4]	$ 35,926	$ 18,215 [5]	$ 24,299 [6]
CLO II Issuer	12/17	1/18	452,800	18,223 [7]	16,621	16,806 [6]	13,395 [6]
CLO III Issuer	6/18	7/18	407,100	35,480 [7]	32,394	22,505 [8]	—

(1) The Company does not have the power to direct the activities of the CLO Issuers that most significantly impact their economic performance.
(2) Excludes the Company's equity investment in the CLO I Risk Retention Vehicle, as discussed above.
(3) Included on the Company's Consolidated Condensed Schedule of Investments in Collateralized Loan Obligations.
(4) The Company purchased secured and unsecured subordinated notes.
(5) Includes unsecured subordinated notes.
(6) Includes secured and unsecured subordinated notes.
(7) The Company purchased secured senior and secured and unsecured subordinated notes.
(8) Includes secured senior and secured and unsecured subordinated notes.

See Note 9 for further details on the Company's participation in CLO transactions.

Residential Loan Securitization

In November 2017, the Company, through its wholly owned subsidiary, Ellington Financial REIT TRS LLC (the "Sponsor"), sponsored a $141.2 million securitization of non-QM loans. The Sponsor transferred $141.2 million of non-QM loans to a wholly owned, newly created entity (the "Depositor") and on November 15, 2017 (the "Closing Date") such loans were deposited into a newly created securitization trust (the "Issuing Entity"). Pursuant to the securitization, the Issuing Entity issued various classes of mortgage pass-through certificates (the "Certificates") totaling $141.2 million in face amount and which are backed by the cash flows from the underlying non-QM loans. In order to comply with the Risk Retention Rules, the Sponsor purchased the two most subordinated classes of Certificates and the excess cash flow certificates, with an aggregate value equal to 5.1% of the fair value of all Certificates issued. The Sponsor also purchased, for an aggregate purchase price of $0.7 million, the Certificates entitled to excess servicing fees, while the remaining classes of Certificates were purchased by unrelated third parties. The Certificates have a final scheduled distribution date of October 25, 2047. However, the Depositor may, at its sole option, purchase all of the outstanding Certificates (the "Optional Redemption") following the earlier of (1) the two year anniversary of the Closing Date or (2) the date on which the aggregate stated principal balance of the underlying non-QM loans has declined below 30% of the aggregate stated principal balance of the underlying non-QM loans as of October 1, 2017. The purchase price that the Depositor is required to pay in connection with the Optional

Redemption is equal to the sum of the unpaid principal balance of each class of Certificates as of the redemption date and any accrued and unpaid interest thereon. In light of this Optional Redemption right held by the Depositor, the transfer of non-QM loans to the Issuing Entity does not qualify as a sale under ASC 860, Transfers and Servicing.

In the event that certain breaches of representations or warranties are discovered with respect to any underlying non-QM loans, the Company could be required to repurchase or replace such loans.

The Sponsor also serves as the servicing administrator and as such, is entitled to receive a monthly fee equal to one-twelfth of the product of (a) 0.03% and (b) the stated principal balance of the non-QM loans as of the first day of the related

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due period. The Sponsor in its role as servicing administrator provides direction and consent to the third-party servicer for certain loss mitigation activities. In certain circumstances, the servicing administrator will be required to reimburse the servicer for principal and interest advances and servicing advances made by the servicer.

In light of the Company’s retained interests in the securitization, together with the Optional Redemption right and the Company's ability to direct the third-party servicer regarding certain loss mitigation activities, the Issuing Entity is deemed to be an extension of the Company's business. The non-QM loans held by the Issuing Entity are included on the Consolidated Condensed Schedule of Investments in Mortgage Loans. Interest income from these loans and the expenses related to the servicing of these loans are included in Interest income and Other investment related expenses—Servicing expense, respectively, on the Consolidated Statement of Operations.

The Issuing Entity meets the definition of a CFE as defined in Note 2, and as a result the assets of the Issuing Entity have been valued using the fair value of the liabilities of the Issuing Entity, as such liabilities have been assessed to be more observable than such assets.

The debt of the Issuing Entity is included in Other secured borrowings, at fair value on the Consolidated Statement of Assets, Liabilities, and Equity and is shown net of the Certificates held by the Company.

The following table details the assets and liabilities of the consolidated securitization trust included in the Company’s Consolidated Statement of Assets, Liabilities, and Equity as of June 30, 2018 and December 31, 2017:

(In thousands)	As of June 30, 2018	December 31, 2017
Assets:		
Cash and cash equivalents	$—	$ 333
Investments, at fair value	107,856	132,424
Interest and dividends receivable	37	—
Liabilities:		
Interest and dividends payable	37	333
Other secured borrowings, at fair value	101,130	125,005

7. Borrowings

Secured Borrowings

The Company's secured borrowings consist of reverse repurchase agreements, Other secured borrowings, and Other secured borrowings, at fair value. As of June 30, 2018 and December 31, 2017, the Company's total secured borrowings were $1.618 billion and $1.392 billion, respectively.

Reverse Repurchase Agreements

The Company enters into reverse repurchase agreements. A reverse repurchase agreement involves the sale of an asset to a counterparty together with a simultaneous agreement to repurchase the transferred asset or similar asset from such counterparty at a future date. The Company accounts for its reverse repurchase agreements as collateralized borrowings, with the transferred assets effectively serving as collateral for the related borrowing. The Company's reverse repurchase agreements typically range in term from 30 to 180 days, although the Company also has reverse repurchase agreements that provide for longer or shorter terms. The principal economic terms of each reverse repurchase agreement—such as loan amount, interest rate, and maturity date—are typically negotiated on a transaction-by-transaction basis. Other terms and conditions, such as those relating to events of default, are typically governed under the Company's master repurchase agreements. Absent an event of default, the Company maintains beneficial ownership of the transferred securities during the term of the reverse repurchase agreement and receives the related principal and interest payments. Interest rates on these borrowings are generally fixed based on prevailing rates corresponding to the terms of the borrowings, and for most reverse repurchase agreements, interest is generally paid at the termination of the reverse repurchase agreement, at which time the Company may enter into a new reverse repurchase agreement at prevailing market rates with the same counterparty, repay that counterparty and possibly negotiate financing terms with a different counterparty, or choose to no longer finance the related asset. Some reverse repurchase agreements provide for periodic payments of interest, such as monthly payments. In response to a decline in the fair value of the transferred securities, whether as a result of changes in market conditions, security paydowns, or other factors, reverse repurchase agreement counterparties will typically make a margin call, whereby the Company will be required to post additional securities and/or cash as collateral with the counterparty in order to re-establish the agreed-upon collateralization

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requirements. In the event of increases in fair value of the transferred securities, the Company can generally require the counterparty to post collateral with it in the form of cash or securities. The Company is generally permitted to sell or re-pledge any securities posted by the counterparty as collateral; however, upon termination of the reverse repurchase agreement, or other circumstance in which the counterparty is no longer required to post such margin, the Company must return to the counterparty the same security that had been posted.

At any given time, the Company seeks to have its outstanding borrowings under reverse repurchase agreements with several different counterparties in order to reduce the exposure to any single counterparty. The Company had outstanding borrowings under reverse repurchase agreements with 24 and 23 counterparties as of June 30, 2018 and December 31, 2017, respectively.

At June 30, 2018, approximately 17% of open reverse repurchase agreements were with one counterparty. As of December 31, 2017, approximately 19% of open reverse repurchase agreements were with one counterparty. As of June 30, 2018 remaining days to maturity on the Company's open reverse repurchase agreements ranged from 2 days to 913 days and from 2 days to 1094 days as of December 31, 2017. Interest rates on the Company's open reverse repurchase agreements ranged from 0.38% to 5.59% as of June 30, 2018 and from (1.25)% to 4.94% as of December 31, 2017.

The following table details the Company's outstanding borrowings under reverse repurchase agreements for Agency RMBS, Credit assets (which include non-Agency MBS, CLOs, consumer loans, corporate debt, residential mortgage loans, and commercial mortgage loans and REO), and U.S. Treasury securities, by remaining maturity as of June 30, 2018 and December 31, 2017:

(In thousands)	June 30, 2018			December 31, 2017		
Remaining Maturity	Outstanding Borrowings	Weighted Average Interest Rate	Weighted Average Remaining Days to Maturity	Outstanding Borrowings	Weighted Average Interest Rate	Weighted Average Remaining Days to Maturity
Agency RMBS:						
30 Days or Less	$261,209	2.01%	16	$287,014	1.43%	15
31-60 Days	395,408	2.13%	45	264,058	1.47%	46
61-90 Days	233,892	2.22%	77	277,950	1.63%	74
121-150 Days	573	3.32%	125	—	— %	—
151-180 Days	—	— %	—	602	2.56%	158
Total Agency RMBS	891,082	2.12%	45	829,624	1.51%	44
Credit:						
30 Days or Less	25,011	2.62%	3	37,433	2.61%	13
31-60 Days	155,309	3.10%	48	132,201	2.44%	49
61-90 Days	144,983	3.33%	76	130,875	2.75%	77
121-150 Days	1,711	3.88%	146	8,551	3.79%	128
151-180 Days	12,241	4.17%	167	8,300	3.40%	164
181-360 Days	121,971	4.00%	221	5,090	3.59%	280
> 360 Days	66,559	5.59%	913	56,944	4.94%	1094
Total Credit Assets	527,785	3.69%	206	379,394	3.00%	219
U.S. Treasury Securities:						
30 Days or Less	2,639	2.30%	2	297	1.70%	2
Total U.S. Treasury Securities	2,639	2.30%	2	297	1.70%	2
Total	$1,421,506	2.70%	104	$1,209,315	1.98%	99

Reverse repurchase agreements involving underlying investments that the Company sold prior to period end, for settlement following period end, are shown using their original maturity dates even though such reverse repurchase agreements may be expected to be terminated early upon settlement of the sale of the underlying investment.

As of June 30, 2018 and December 31, 2017, the fair value of investments transferred as collateral under outstanding borrowings under reverse repurchase agreements was $1.69 billion and $1.41 billion, respectively. Collateral transferred under outstanding borrowings as of June 30, 2018 include investments in the amount of $0.3 million that were sold prior to period end but for which such sale had not yet settled. In addition the Company posted net cash collateral of $20.7 million and additional securities with a fair value of $0.5 million as of June 30, 2018 to its counterparties. Collateral transferred under

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outstanding borrowings as of December 31, 2017 include investments in the amount of $10.6 million that were sold prior to year end but for which such sale had not yet settled. In addition, the Company posted net cash collateral of $18.6 million and additional securities with a fair value of $1.3 million as of December 31, 2017 as a result of margin calls from various counterparties.

As of both June 30, 2018 and December 31, 2017, there were no counterparties for which the amount at risk relating to our repurchase agreements was greater than 10% of total equity.

Other Secured Borrowings

In February 2018, the Company entered into agreements to finance a portfolio of unsecured loans through a recourse secured borrowing facility. The facility includes a one year revolving period (or earlier following an early amortization event or event of default), whereby the Company can vary its borrowings based on the size of its portfolio, subject to certain maximum limits. After the revolving period ends, the facility has a two-year term ending in February 2021. The facility accrues interest on a floating rate basis. As of June 30, 2018, the Company had outstanding borrowings under this facility in the amount of $11.0 million which is included under the caption Other secured borrowings, on the Company's Consolidated Statement of Assets, Liabilities, and Equity, and the effective interest rate, inclusive of related deferred financing costs, was 4.42%. As of June 30, 2018, the fair value of unsecured loans collateralizing this borrowing was $18.6 million.

In December 2017, the Company amended its non-recourse secured borrowing facility that is used to finance a portfolio of unsecured loans. The facility includes a reinvestment period ending in December 2019 (or earlier following an early amortization event), whereby the Company can vary its borrowings based on the size of its portfolio, subject to certain maximum limits. Following the reinvestment period, the facility will begin to amortize based on the collections from the underlying loans. The facility accrues interest on a floating rate basis. As of June 30, 2018 and December 31, 2017, the Company had outstanding borrowings under this facility in the amount of $84.6 million and $57.9 million, respectively, which is included under the caption Other secured borrowings, on the Company's Consolidated Statement of Assets, Liabilities, and Equity, and the effective interest rate on this facility, inclusive of related deferred financing costs, was 4.42% and 4.34% as of June 30, 2018 and December 31, 2017, respectively. As of June 30, 2018 and December 31, 2017, the fair value of unsecured loans collateralizing this borrowing was $141.3 million and $89.7 million, respectively.

In November 2017, the Company completed a securitization transaction, as discussed in Note 6, whereby it financed a portfolio of non-QM loans. As of June 30, 2018 and December 31, 2017, the fair value of the Company’s outstanding liability associated with this securitization transaction was $101.1 million and $125.1 million, respectively, representing the fair value of the securitization trust certificates held by third parties as of such date, and is included on Company's Consolidated Statement of Assets, Liabilities, and Equity in Other Secured Borrowings, at fair value. The weighted average coupon on the Certificates held by third parties was 2.93% and 2.89% as of June 30, 2018 and December 31, 2017, respectively. As of June 30, 2018 and December 31, 2017, the fair value of non-QM loans held in the securitization trust was $107.9 million and $132.4 million, respectively.

Unsecured Borrowings

Senior Notes

On August 18, 2017, the Company issued $86.0 million in aggregate principal amount of Senior Notes. The total net proceeds to the Company from the issuance of the Senior Notes was approximately $84.7 million, after deducting debt issuance costs. The Senior Notes bear an interest rate of 5.25%, subject to adjustment based on changes in the ratings, if any, of the Senior Notes. Interest on the Senior notes is payable semi-annually in arrears on March 1 and September 1 of each year. The Senior Notes mature on September 1, 2022. The Company may redeem the Senior Notes, at its option, in whole or in part, prior to March 1, 2022 at a price equal to 100% of the principal amount thereof, plus the applicable "make-whole" premium as of the applicable date of redemption. At any time on or after March 1, 2022, the Company may redeem the Senior Notes, in whole or in part, at a redemption price equal to 100% of the aggregate principal amount of the Senior Notes to be redeemed, plus accrued and unpaid interest. The Senior Notes are carried at amortized cost. There are a number of covenants, including several financial covenants, associated with the Senior Notes. As of June 30, 2018 the Company was in compliance with all of its covenants.

The Company amortizes debt issuance costs over the life of the associated debt; the amortized portion of debt issuance costs is included in Interest expense on the Consolidated Statement of Operations. The Senior Notes have an effective interest rate of 5.55%, inclusive of debt issuance costs.
The Senior Notes are unsecured and are effectively subordinated to secured indebtedness of the Company, to the extent of the value of the collateral securing such indebtedness.

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Schedule of Principal Repayments

The following table details the Company's principal repayment schedule for outstanding borrowings as of June 30, 2018:

Year	Reverse Repurchase Agreements[1]	Other Secured Borrowings[2]	Senior Notes[1]	Total
(In thousands)				
2018	$ 1,232,976	$ 20,305	$—	$1,253,281
2019	121,971	113,777	—	235,748
2020	66,559	52,859	—	119,418
2021	—	10,990	—	10,990
2022	—	—	86,000	86,000
Total	$ 1,421,506	$ 197,931	$86,000	$1,705,437

(1) Reflects the Company's contractual principal repayment dates.

(2) Reflects the Company's expected principal repayment dates.

8. Income Taxes

The Company has certain subsidiaries that have elected to be treated as corporations for U.S. federal income tax purposes. As of both June 30, 2018 and December 31, 2017, one such subsidiary had a deferred tax asset, resulting from a net operating loss carryforward, which was fully reserved through a valuation allowance. As of June 30, 2018, the deferred tax asset and the valuation allowance were valued at $4.6 million and $(4.6) million, respectively. As of December 31, 2017, the deferred tax asset and the valuation allowance were valued at 4.0 million and $(4.0) million, respectively.

9. Related Party Transactions

The Company is party to a Management Agreement (which may be amended from time to time), pursuant to which the Manager manages the assets, operations, and affairs of the Company, in consideration of which the Company pays the Manager management and incentive fees. Effective March 13, 2018, the Board of Directors approved a Seventh Amended and Restated Management Agreement between the Company and the Manager. The descriptions of the Base Management Fees and Incentive Fees are detailed below.

Base Management Fees

The Operating Partnership pays the Manager 1.50% per annum of total equity of the Operating Partnership calculated in accordance with U.S. GAAP as of the end of each fiscal quarter (before deductions for base management fees and incentive fees payable with respect to such fiscal quarter), provided that total equity is adjusted to exclude one-time events pursuant to changes in U.S. GAAP, as well as non-cash charges after discussion between the Manager and the Company's independent directors, and approval by a majority of the Company's independent directors in the case of non-cash charges.

Pursuant to the Company's management agreement, if the Company invests at issuance in the equity of any collateralized debt obligation that is managed, structured, or originated by Ellington or one of its affiliates, or if the Company invests in any other investment fund or other investment for which Ellington or one of its affiliates receives management, origination, or structuring fees, then unless agreed otherwise by majority of the Company's independent directors, the base management and incentive fees payable by the Company to its Manager will be reduced by an amount equal to the applicable portion (as described in the management agreement) of any such management, origination, or structuring fees.

Summary information—For the three-month periods ended June 30, 2018 and 2017, the total base management fee incurred, net of fee rebates, was $2.0 million and $2.4 million, respectively. For the six-month periods ended June 30, 2018 and 2017, the total base management fee incurred, net of fee rebates, was $4.0 million and $4.8 million, respectively.

Incentive Fees

The Manager is entitled to receive a quarterly incentive fee equal to the positive excess, if any, of (i) the product of (A) 25% and (B) the excess of (1) Adjusted Net Income (described below) for the Incentive Calculation Period (which means such fiscal quarter and the immediately preceding three fiscal quarters) over (2) the sum of the Hurdle Amounts (described below) for the Incentive Calculation Period, over (ii) the sum of the incentive fees already paid or payable for each fiscal quarter in the Incentive Calculation Period preceding such fiscal quarter.

For purposes of calculating the incentive fee, "Adjusted Net Income" for the Incentive Calculation Period means the net

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increase in equity from operations of the Operating Partnership, after all base management fees but before any incentive fees for such period, and excluding any non-cash equity compensation expenses for such period, as reduced by any Loss Carryforward (as described below) as of the end of the fiscal quarter preceding the Incentive Calculation Period.

For purposes of calculating the incentive fee, the "Loss Carryforward" as of the end of any fiscal quarter is calculated by determining the excess, if any, of (1) the Loss Carryforward as of the end of the immediately preceding fiscal quarter over (2) the Company's net increase in equity from operations (expressed as a positive number) or net decrease in equity from operations (expressed as a negative number) of the Operating Partnership for such fiscal quarter. As of June 30, 2018, there was no Loss Carryforward.

For purposes of calculating the incentive fee, the "Hurdle Amount" means, with respect to any fiscal quarter, the product of (i) one-fourth of the greater of (A) 9% and (B) 3% plus the 10-year U.S. Treasury rate for such fiscal quarter, (ii) the sum of (A) the weighted average gross proceeds per share of all common share and OP Unit issuances since inception of the Company and up to the end of such fiscal quarter, with each issuance weighted by both the number of shares and OP Units issued in such issuance and the number of days that such issued shares and OP Units were outstanding during such fiscal quarter, using a first-in first-out basis of accounting (i.e. attributing any share and OP Unit repurchases to the earliest issuances first) and (B) the result obtained by dividing (I) retained earnings attributable to common shares and OP Units at the beginning of such fiscal quarter by (II) the average number of common shares and OP Units outstanding for each day during such fiscal quarter, (iii) the sum of the average number of common shares, LTIP Units, and OP Units outstanding for each day during such fiscal quarter. For purposes of determining the Hurdle Amount, issuances of common shares and OP Units (a) as equity incentive awards, (b) to the Manager as part of its base management fee or incentive fee and (c) to the Manager or any of its affiliates in privately negotiated transactions, are excluded from the calculation. The payment of the incentive fee will be in a combination of common shares and cash, provided that at least 10% of any quarterly payment will be made in common shares.

Summary information—Total incentive fee incurred for the three- and six-month periods ended June 30, 2018 was $0.3 million. The Company did not accrue an incentive fee for the three- or six-month periods ended June 30, 2017, since on a rolling four quarter basis, the Company's income did not exceed the prescribed hurdle amount.

Termination Fees

The Management Agreement requires the Company to pay a termination fee to the Manager in the event of (1) the Company's termination or non-renewal of the Management Agreement without cause or (2) the Company's termination of the Management Agreement based on unsatisfactory performance by the Manager that is materially detrimental to the Company or (3) the Manager's termination of the Management Agreement upon a default by the Company in the performance of any material term of the Management Agreement. Such termination fee will be equal to the amount of three times the sum of (i) the average annual Quarterly Base Management Fee Amounts paid or payable with respect to the two 12-month periods ending on the last day of the latest fiscal quarter completed on or prior to the date of the notice of termination or non-renewal and (ii) the average annual Quarterly Incentive Fee Amounts paid or payable with respect to the two 12-month periods ending on the last day of the latest fiscal quarter completed on or prior to the date of the notice of termination or non-renewal.

Expense Reimbursement

Under the terms of the Management Agreement the Company is required to reimburse the Manager for operating expenses related to the Company that are incurred by the Manager, including expenses relating to legal, accounting, due diligence, other services, and all other costs and expenses. The Company's reimbursement obligation is not subject to any dollar limitation. Expenses will be reimbursed in cash within 60 days following delivery of the expense statement by the Manager; provided, however, that such reimbursement may be offset by the Manager against amounts due to the Company from the Manager. The Company will not reimburse the Manager for the salaries and other compensation of the Manager's personnel except that the Company will be responsible for expenses incurred by the Manager in employing certain dedicated or partially dedicated personnel as further described below.

The Company reimburses the Manager for the allocable share of the compensation, including, without limitation, wages, salaries, and employee benefits paid or reimbursed, as approved by the Compensation Committee of the Board of Directors to certain dedicated or partially dedicated personnel who spend all or a portion of their time managing the

Company's affairs, based upon the percentage of time devoted by such personnel to the Company's affairs. In their capacities as officers or personnel of the Manager or its affiliates, such personnel will devote such portion of their time to the Company's affairs as is necessary to enable the Company to operate its business.
For the six-month periods ended June 30, 2018 and 2017, the Company reimbursed the Manager \$3.8 million and \$2.7 million, respectively, for previously incurred operating and compensation expenses.

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Equity Investments in Certain Mortgage Originators

As of June 30, 2018, the mortgage originators in which the Company holds equity investments represent related parties. Transactions that have been entered into with these related party mortgage originators are summarized below.

The Company is a party to a mortgage loan purchase and sale flow agreement, with a mortgage originator in which the Company holds an investment in common stock, whereby the Company purchases residential mortgage loans that satisfy certain specified criteria. The Company has also provided a $5.0 million line of credit to the mortgage originator. Under the terms of this line of credit, the Company has agreed to make advances to the mortgage originator solely for the purpose of funding specifically identified residential mortgage loans designated for sale to the Company. To the extent the advances are drawn by the mortgage originator, it must pay interest, at a rate of 15% per annum, on the outstanding balance of each advance from the date the advance is made until such advance is repaid in full. The mortgage originator is required to repay advances in full no later than two business days following the date the Company purchases the related residential mortgage loans from the mortgage originator. As of June 30, 2018, there were no advances outstanding. The Company has also entered into two agreements whereby it guarantees the performance of such mortgage originator under third-party master repurchase agreements. See Note 17, Commitments and Contingencies, for further information on the Company's guarantees of the third-party borrowing arrangements.

Consumer, Residential, and Commercial Loan Transactions with Affiliates

The Company has investments in participation certificates related to consumer loans titled in the name of a related party of Ellington. Through its participation certificates, the Company has beneficial interests in the loan cash flows, net of servicing-related fees and expenses. The total fair value of the Company's beneficial interests in the net cash flows was $18.2 million and $11.7 million as of June 30, 2018 and December 31, 2017, respectively, and is included on the Company's Consolidated Condensed Schedule of Investments in Consumer Loans and Asset-backed Securities backed by Consumer Loans.

The Company purchases certain of its consumer loans through an affiliate, or the "Purchasing Entity." The Purchasing Entity has entered into purchase agreements, open-ended in duration, with third party consumer loan originators whereby it has agreed to purchase eligible consumer loans. The amount of loans purchased under these purchase agreements is dependent on, among other factors, the amount of loans originated in any given period by the selling originators. The Company and other affiliates of Ellington have entered into agreements with the Purchasing Entity whereby the Company and each of the affiliates have agreed to purchase their allocated portion (subject to monthly determination based on available capital and other factors) of the eligible loans acquired by the Purchasing Entity under each purchase agreement. Immediately after the Purchasing Entity purchases beneficial interests in the loans, the Company and other affiliates purchase such beneficial interests from the Purchasing Entity, at the same price paid by the Purchasing Entity. During the six-month period ended June 30, 2018, the Company purchased loans under these agreements with an aggregate principal balance of $93.7 million. As of June 30, 2018, the estimated remaining contingent purchase obligations of the Company under these purchase agreements was approximately $111.6 million in principal balance.

The Company's beneficial interests in the consumer loans purchased through the Purchasing Entity are evidenced by participation certificates issued by trusts that hold legal title to the loans. These trusts are owned by a related party of Ellington and were established to hold such loans. Through its participation certificates, the Company participates in the cash flows of the underlying loans held by each trust. The total amount of consumer loans held in the related party trusts, for which the Company has participating interests in the net cash flows, was $168.5 million and $114.5 million as of June 30, 2018 and December 31, 2017, respectively, and is included on the Company's Consolidated Condensed Schedule of Investments in Consumer Loans and Asset-backed Securities backed by Consumer Loans.

The Company has investments in participation certificates related to residential mortgage loans and REO held in a trust owned by another related party of Ellington. Through its participation certificates, the Company participates in the cash flows of the underlying loans held by such trust. The total amount of residential mortgage loans and REO held in the related party trust, for which the Company has participating interests in the net cash flows, was $294.4 million and $183.1 million as of June 30, 2018 and December 31, 2017, respectively, and is included on the Company's Consolidated Condensed Schedule of Investments in Mortgage Loans as well as Real Estate Owned.

The Company is a co-investor in certain small balance commercial mortgage loans with two other investors, including an unrelated third party and an affiliate of Ellington. These loans are held in a consolidated subsidiary of the Company. As of June 30, 2018, the aggregate fair value of these loans was $20.3 million and the non-controlling interests held by the unrelated third party and the Ellington affiliate were $1.0 million and $2.7 million, respectively. As of December 31, 2017, the aggregate fair value of these loans was $27.9 million and the non-controlling interests held by the unrelated third party and the Ellington affiliate were $1.8 million and $5.3 million, respectively.

The Company is also a co-investor in certain small balance commercial mortgage loans with other investors, including unrelated third parties and affiliates of Ellington. Each co-investor has an interest in a limited liability company that holds the loans. As of June 30, 2018 the Company's ownership percentage of the jointly owned limited liability company was approximately 17% and had a fair value of $1.2 million, which is included on the Company's Consolidated Condensed Schedule of Investments in Corporate Equity Investments.

The Company is also a co-investor, together with other affiliates of Ellington, in the parent of an entity (the "Issuing Entity"), that holds a call right to a securitization. The Issuing Entity issued notes to the Company and its affiliates, and to an unrelated third party. As of June 30, 2018 the notes held by the Company had a fair value of $11.1 million, which are included on the Company's Consolidated Condensed Schedule of Investments in Secured Notes.

Participation in Multi-Borrower Financing Facility

The Company is a co-participant in an agreement with certain other entities managed by Ellington (the "Affiliated Entities") in order to facilitate the financing of certain small balance commercial mortgage loans and REO owned by the Company and the Affiliated Entities, respectively (the "SBC Assets").

In connection with the financing of the SBC Assets under a reverse repurchase agreement, each of the Company and the Affiliated Entities transferred their respective SBC Assets to a jointly owned entity (the "Jointly Owned Entity"). While the Company's SBC Assets were transferred to the Jointly Owned Entity, the Company's SBC Assets and the related debt were not derecognized for financial reporting purposes, in accordance with ASC 860-10, because the Company continued to retain the risks and rewards of ownership of its SBC Assets. As of June 30, 2018 and December 31, 2017, the Jointly Owned Entity has outstanding issued debt under the reverse repurchase agreement in the amount of $146.7 million and $106.6 million, respectively. The Company's portion of this debt as of June 30, 2018 and December 31, 2017 was $66.6 million and $56.9 million, respectively, and is included under the caption Reverse repurchase agreements on the Company's Consolidated Statement of Assets, Liabilities, and Equity. To the extent that there is a default under the reverse repurchase agreement, all of the assets of the Jointly Owned Entity, including those beneficially owned by any non-defaulting owners of the Jointly Owned Entity, could be used to satisfy the outstanding obligations under the reverse repurchase agreement. As of June 30, 2018, no party to the reverse repurchase agreement was in default. In connection with this financing as of June 30, 2018 and December 31, 2017 there was a receivable from the Jointly Owned Entity in the amount of $12 thousand and $23.4 million, respectively, which is included in Other assets on the Company's Consolidated Statement of Assets, Liabilities, and Equity.

Multi-Seller Consumer Loan Securitization

In December 2016, in order to facilitate the financing of the Company's share of the subordinated note held by the Acquiror, the Company entered into a repurchase agreement with the Acquiror (the "Acquiror Repurchase Agreement") whereby the Company's share of the subordinated note held by the Acquiror was transferred to the Company as collateral under the Acquiror Repurchase Agreement. The Company then re-hypothecated this collateral to a third-party lending institution pursuant to a reverse repurchase agreement (the "Reverse Agreement"). The Acquiror Repurchase Agreement is included on the Company's Consolidated Statement of Assets, Liabilities and Equity under the caption, Repurchase agreements, at fair value and on its Consolidated Condensed Schedule of Investments. The Company's obligation under the Reverse Agreement is included on its Consolidated Statement of Assets, Liabilities and Equity under the caption, Reverse repurchase agreements. As of June 30, 2018 the outstanding amounts under the Acquiror Repurchase Agreement and the Reverse Agreement were each $5.7 million and the fair value of the related collateral was $9.4 million. As of December 31, 2017 the outstanding amounts under the Acquiror Repurchase Agreement and the Reverse Agreement were each $5.7 million and the fair value of the related collateral was $9.4 million. See Note 6 for details of the Company's participation in the multi-seller consumer loan securitization.

Participation in CLO Transactions

As discussed in Note 6, the Company participated in three CLO securitization transactions, all managed by the CLO Manager.

The CLO Manager is entitled to receive management and incentive fees in accordance with the respective management agreements between the CLO Manager and the respective CLO Issuers. In accordance with the Company's Management Agreement, the Manager rebates to the Company the portion of the management fees payable by each CLO Issuer to the CLO Manager that are allocable to the Company's participating interest in the unsecured subordinated notes issued by such CLO Issuer. For the three- and six-month periods ended June 30, 2018, the amount of such fee rebates was $0.3 million and $0.5 million.

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In addition, as discussed in Note 6, in the case of the CLO II Securitization and the CLO III Securitization, the Company along with certain other CLO Co-Participants made Advances to the respective CLO Issuers, to enable them to establish warehouse facilities for the purpose of acquiring the assets to be securitized. Pursuant to the terms of the warehouse facilities and the Advances, the applicable CLO Issuer is required, at the closing of each respective CLO securitization, first to repay the warehouse facility, then to repay the Advances, and then to distribute interest earned, net of any necessary reserves and/or interest expense, and the aggregate realized or unrealized gains, if any, on assets purchased into the warehouse facility. In the event that such CLO securitization fails to close, the assets held by the respective CLO Issuer would, subject to a cure period, be liquidated. As of June 30, 2018 and December 31, 2017, the Company's loan receivable related to the warehouse facility in operation at such time was in the amount of $21.0 million and $16.9 million, respectively, and is included on the Consolidated Statement of Assets, Liabilities and Equity in Other assets. Each loan receivable from these warehouse facilities is considered a Level 3 asset and its carrying value approximates fair value due to its short term nature and the adequacy of the assets acquired into the warehouse.

10. Long-Term Incentive Plan Units

LTIP Units held pursuant to the Company's incentive plans are generally exercisable by the holder at any time after vesting. Each unit is convertible into one common share. Costs associated with the LTIP Units issued under the Company's incentive plans are measured as of the grant date and expensed ratably over the vesting period. Total expense associated with LTIP Units issued under the Company's incentive plans for each of the three-month periods ended June 30, 2018 and 2017 was $0.1 million. Total expense associated with LTIP Units issued under the Company's incentive plans for each of the six-month periods ended June 30, 2018 and 2017 was $0.2 million.

On March 7, 2018, the Company's Board of Directors authorized the issuance of 1,723 LTIP Units to certain of its partially dedicated employees pursuant to the Company's 2017 Equity Incentive Plan. These LTIP Units will vest and become non-forfeitable on March 7, 2019.

The below table details on the Company's unvested LTIP Units as of June 30, 2018:

Grant Recipient	Number of LTIP Units Granted	Grant Date	Vesting Date[1]
Independent directors:			
	10,002	September 12, 2017	September 11, 2018
Partially dedicated employees:			
	1,723	March 7, 2018	March 7, 2019
	8,533	December 12, 2017	December 12, 2018
	5,886	December 12, 2017	December 12, 2019
	5,583	December 13, 2016	December 13, 2018
Total unvested LTIP Units at June 30, 2018	31,727		

(1) Date at which such LTIP Units will vest and become non-forfeitable.

The following table summarizes issuance and exercise activity of the Company's LTIP Units for the three-month periods ended June 30, 2018 and 2017:

	Three-Month Period Ended June 30, 2018			Three-Month Period Ended June 30, 2017		
	Manager	Director/ Employee	Total	Manager	Director/ Employee	Total
LTIP Units Outstanding (3/31/2018 and 3/31/2017, respectively)	375,000	117,882	492,882	375,000	94,539	469,539
Granted	—	—	—	—	—	—
Exercised	—	—	—	—	—	—
LTIP Units Outstanding (6/30/2018 and 6/30/2017, respectively)	375,000	117,882	492,882	375,000	94,539	469,539

LTIP Units Vested and Outstanding (6/30/2018 and 6/30/2017, respectively)	375,000	86,155	461,155	375,000	65,828	440,828

The following table summarizes issuance and exercise activity of the Company's LTIP Units for the six-month periods ended June 30, 2018 and 2017:

	Six-Month Period Ended June 30, 2018			Six-Month Period Ended June 30, 2017		
	Manager	Director/ Employee	Total	Manager	Director/ Employee	Total
LTIP Units Outstanding (12/31/2017 and 12/31/2016, respectively)	375,000	116,159	491,159	375,000	94,539	469,539
Granted	—	1,723	1,723	—	—	—
Exercised	—	—	—	—	—	—
LTIP Units Outstanding (6/30/2018 and 6/30/2017, respectively)	375,000	117,882	492,882	375,000	94,539	469,539
LTIP Units Vested and Outstanding (6/30/2018 and 6/30/2017, respectively)	375,000	86,155	461,155	375,000	65,828	440,828

As of June 30, 2018, there were an aggregate of 1,906,046 common shares underlying awards, including LTIP Units, available for future issuance under the Company's 2017 Equity Incentive Plan.

11. Non-controlling Interests

Operating Partnership

Non-controlling interests include the interest in the Operating Partnership owned by an affiliate of the Manager and certain related parties. On January 1, 2013, 212,000 OP Units were purchased by the initial non-controlling interest member. Income allocated to the non-controlling interest is based on the non-controlling interest owners' ownership percentage of the Operating Partnership during the quarter, calculated using a daily weighted average of all common shares and convertible units outstanding during the quarter. Holders of OP Units are entitled to receive the same distributions that holders of common shares receive, and OP Units are convertible into common shares on a one-for-one basis, subject to specified limitations. OP Units are non-voting with respect to matters as to which common shareholders are entitled to vote. As of both June 30, 2018 and December 31, 2017, non-controlling interest related to the outstanding 212,000 OP Units represented an interest of approximately 0.7% in the Operating Partnership. As of June 30, 2018 and December 31, 2017 non-controlling interest related to the outstanding 212,000 OP Units was $4.1 million and $4.0 million, respectively.

Joint Venture Interests

Non-controlling interests also include the interests of joint venture partners in various consolidated subsidiaries of the Company. The subsidiaries hold the Company's investments in certain commercial mortgage loans and REO. These joint venture partners participate in the income, expense, gains and losses of such subsidiaries as set forth in the related operating agreements of the subsidiaries. These joint venture partners make capital contributions to the subsidiaries as new approved investments are purchased by the subsidiaries, and are generally entitled to distributions when investments are sold or otherwise disposed of. As of June 30, 2018 and December 31, 2017 these joint venture partners' interests in subsidiaries of the Company were $9.4 million and $16.7 million, respectively.

These joint venture partners' interests are not convertible into common shares of the Company or OP Units, nor are these joint venture partners entitled to receive distributions that holders of common shares of the Company receive.

12. Common Share Capitalization

During the three-month periods ended June 30, 2018 and 2017, the Board of Directors authorized dividends totaling $0.41 per share and $0.45 per share, respectively. Total dividends paid during the three-month periods ended June 30, 2018 and 2017 were $12.7 million and $14.8 million, respectively. During the six-month periods ended June 30, 2018 and 2017, the Board of Directors authorized dividends totaling $0.82 per share and $0.90 per share, respectively. Total dividends paid during the six-month periods ended June 30, 2018 and 2017 were $25.5 million and $29.6 million, respectively.

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The following table summarizes issuance, repurchase, and other activity with respect to the Company's common shares for the three- and six-month periods ended June 30, 2018 and 2017:

	Three-Month Period Ended June 30, 2018	Three-Month Period Ended June 30, 2017	Six-Month Period Ended June 30, 2018	Six-Month Period Ended June 30, 2017
Common Shares Outstanding (3/31/2018, 3/21/2017, 12/31/2017, and 12/31/2016, respectively)	30,392,041	32,164,215	31,335,938	32,294,703
Share Activity:				
Shares repurchased	(242,161)	(51,518)	(1,186,058)	(182,006)
Director LTIP Units exercised	—	—	—	—
Common Shares Outstanding (6/30/2018, 6/30/2017, 6/30/2018, and 6/30/2017, respectively)	30,149,880	32,112,697	30,149,880	32,112,697

If all LTIP and OP Units that have been previously issued were to become fully vested and exchanged for common shares as of June 30, 2018 and 2017, the Company's issued and outstanding common shares would increase to 30,854,762 shares and 32,794,236 shares, respectively.

On June 13, 2018, the Company's Board of Directors approved the adoption of a share repurchase program under which the Company is authorized to repurchase up to 1.55 million common shares. The program, which is open-ended in duration, allows the Company to make repurchases from time to time on the open market or in negotiated transactions, including under Rule 10b5-1 plans. Repurchases are at the Company's discretion, subject to applicable law, share availability, price and its financial performance, among other considerations. This program superseded the program that was previously adopted on February 6, 2018. During the three-month period ended June 30, 2018, the Company repurchased 242,161 shares at an average price per share of $14.98 and a total cost of $3.6 million. During the six-month period ended June 30, 2018, the Company repurchased 1,186,058 shares at an average price per share of $14.83 and a total cost of $17.6 million. The Company has not repurchased shares under the current share repurchase program.

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13. Earnings Per Share

The components of the computation of basic and diluted EPS were as follows:

	Three-Month Period Ended June 30,		Six-Month Period Ended June 30,	
	2018	2017	2018	2017
(In thousands except share amounts)				
Net increase (decrease) in shareholders' equity resulting from operations	$21,193	$ 5,064	$42,232	$ 20,342
Add: Net increase (decrease) in equity resulting from operations attributable to the participating non-controlling interest[(1)]	146	33	289	132
Net increase (decrease) in equity resulting from operations related to common shares, LTIP Unit holders, and participating non-controlling interest	21,339	5,097	42,521	20,474
Net increase (decrease) in shareholders' equity resulting from operations available to common share and LTIP Unit holders:				
Net increase (decrease) in shareholders' equity resulting from operations–common shares	20,853	4,991	41,561	20,049
Net increase (decrease) in shareholders' equity resulting from operations–LTIP Units	340	73	671	293
Dividends Paid[(2)]:				
Common shareholders	(12,361)	(14,451)	(24,923)	(28,965)
LTIP Unit holders	(202)	(211)	(404)	(423)
Non-controlling interest	(87)	(95)	(174)	(191)
Total dividends paid to common shareholders, LTIP Unit holders, and non-controlling interest	(12,650)	(14,757)	(25,501)	(29,579)
Undistributed (Distributed in excess of) earnings:				
Common shareholders	8,492	(9,460)	16,638	(8,916)
LTIP Unit holders	138	(138)	267	(130)
Non-controlling interest	59	(62)	115	(59)
Total undistributed (distributed in excess of) earnings attributable to common shareholders, LTIP Unit holders, and non-controlling interest	$8,689	$ (9,660)	$17,020	$ (9,105)
Weighted average shares outstanding (basic and diluted):				
Weighted average common shares outstanding	30,202,262	32,117,492	30,514,702	32,182,690
Weighted average participating LTIP Units	492,882	469,539	492,263	469,539
Weighted average non-controlling interest units	212,000	212,000	212,000	212,000
Basic earnings per common share:				
Distributed	$0.41	$ 0.45	$0.82	$ 0.90
Undistributed (Distributed in excess of)	0.28	(0.29)	0.54	(0.28)
	$0.69	$ 0.16	$1.36	$ 0.62
Diluted earnings per common share:				
Distributed	$0.41	$ 0.45	$0.82	$ 0.90
Undistributed (Distributed in excess of)	0.28	(0.29)	0.54	(0.28)
	$0.69	$ 0.16	$1.36	$ 0.62

(1) For the three-month periods ended June 30, 2018 and 2017, excludes net increase (decrease) in equity resulting from operations of $0.8 million and $0.3 million, respectively, attributable to joint venture partners, which have non-participating interests as described in Note 9. For the six-month periods ended June 30, 2018 and 2017, excludes net increase (decrease) in equity resulting from operations of $1.0 million and $0.7 million, respectively attributable to joint venture partners, which have non-participating interests as described in Note 11.

(2)

The Company pays quarterly dividends in arrears, so a portion of the dividends paid in each calendar year relate to the prior year's earnings.

14. Counterparty Risk

As of June 30, 2018, investments with an aggregate value of approximately $1.69 billion were held with dealers as collateral for various reverse repurchase agreements. The investments held as collateral include securities in the amount of $0.3

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million that were sold prior to period end but for which such sale had not yet settled as of June 30, 2018.

The following table details the percentage of such collateral held by counterparties who hold greater than 15% of the aggregate $1.69 billion in collateral for various reverse repurchase agreements as of June 30, 2018. In addition to the below, unencumbered investments, on a settlement date basis, of approximately $26.8 million were held in custody at the Bank of New York Mellon Corporation as of June 30, 2018.

Dealer	% of Total Collateral on Reverse Repurchase Agreements
Royal Bank of Canada	15%

The following table details the percentage of collateral amounts held by dealers who hold greater than 15% of the Company's Due from Brokers, included as of June 30, 2018:

Dealer	% of Total Due from Brokers
Morgan Stanley	49%
J.P. Morgan Securities LLC	17%

The following table details the percentage of amounts held by dealers who hold greater than 15% of the Company's Receivable for securities sold as of June 30, 2018:

Dealer	% of Total Receivable for Securities Sold
Credit Suisse Securities LLC	34%
Bank of America Securities	33%
Wells Fargo Securities	16%

In addition, the Company held cash and cash equivalents of $22.1 million and $47.2 million as of June 30, 2018 and December 31, 2017, respectively. The below table details the concentration of cash and cash equivalents held by each counterparty:

	As of	
Counterparty	June 30, 2018	December 31, 2017
Bank of New York Mellon Corporation	32%	37%
Deutsche Bank Securities	32%	5%
Morgan Stanley Institutional Liquidity Fund—Government Portfolio	11%	—%
BlackRock Liquidity Funds FedFund Portfolio	10%	56%
Goldman Sachs Financial Square Funds—Government Fund	10%	—%
Bank of America Securities	4%	2%
US Bank N.A.	1%	—%

15. Restricted Cash

The Company is required to maintain certain cash balances with counterparties and/or unrelated third parties for various activities and transactions.

The Company is required to maintain a specific cash balance in a segregated account pursuant to a flow consumer loan purchase and sale agreement. The Company is also required to maintain a specific minimum cash balance in connection with its subsidiary that holds various state mortgage origination licenses.

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The below table details the Company's restricted cash balances included in Restricted cash on the Consolidated Statement of Assets, Liabilities, and Equity as of June 30, 2018 and December 31, 2017.

	June 30, 2018	December 31, 2017
	(In thousands)	
Restricted cash balance related to:		
Minimum account balance required for regulatory purposes	$250	$ 250
Flow consumer loan purchase and sale agreement	175	175
Total	$425	$ 425

16. Offsetting of Assets and Liabilities

The Company records financial instruments at fair value as described in Note 2. All financial instruments are recorded on a gross basis on the Consolidated Statement of Assets, Liabilities, and Equity. In connection with the vast majority of its derivative, repurchase and reverse repurchase agreements, and the related trading agreements, the Company and its counterparties are required to pledge collateral. Cash or other collateral is exchanged as required with each of the Company's counterparties in connection with open derivative positions, and repurchase and reverse repurchase agreements.

The following tables present information about certain assets and liabilities representing financial instruments as of June 30, 2018 and December 31, 2017. The Company has not entered into master netting agreements with any of its counterparties. Certain of the Company's repurchase and reverse repurchase agreements and financial derivative transactions are governed by underlying agreements that generally provide a right of offset in the event of default or in the event of a bankruptcy of either party to the transaction.

June 30, 2018:

Description	Amount of Assets (Liabilities) Presented in the Consolidated Statements of Assets, Liabilities, and Equity[1]	Financial Instruments Available for Offset	Financial Instruments Transferred or Pledged as Collateral[2][3]	Cash Collateral (Received) Pledged[2][3]	Net Amount
(In thousands)					
Assets					
Financial derivatives–assets	$ 30,669	$ (18,031)	$ —	$ (1,775)	$ 10,863
Repurchase agreements	214,411	(214,411)	—	—	—
Liabilities					
Financial derivatives–liabilities	(25,675)	18,031	—	7,644	—
Reverse repurchase agreements	(1,421,506)	214,411	1,189,172	17,923	—

December 31, 2017:

Description	Amount of Assets (Liabilities) Presented in the Consolidated Statements of Assets, Liabilities,	Financial Instruments Available for Offset	Financial Instruments Transferred or Pledged as Collateral[2][3]	Cash Collateral (Received) Pledged[2][3]	Net Amount

	and Equity[1]				
(In thousands)					
Assets					
Financial derivatives–assets	$ 28,165	$ (18,708)	$ —	$ (1,720)	$ 7,737
Repurchase agreements	155,949	(155,949)	—	—	—
Liabilities					
Financial derivatives–liabilities	(36,273)	18,708	—	17,565	—
Reverse repurchase agreements	(1,209,315)	155,949	1,034,808	18,558	—

(1) In the Company's Consolidated Statement of Assets, Liabilities, and Equity, all balances associated with repurchase agreements, reverse repurchase agreements, and financial derivatives are presented on a gross basis.

(2) For the purpose of this presentation, for each row the total amount of financial instruments transferred or pledged and cash collateral (received) or pledged may not exceed the applicable gross amount of assets or (liabilities) as presented here. Therefore, the Company has reduced the amount of financial instruments transferred or pledged as collateral related to the Company's reverse repurchase agreements and cash collateral pledged on the Company's financial derivative liabilities. Total financial instruments transferred or pledged as collateral on the Company's reverse repurchase agreements

as of June 30, 2018 and December 31, 2017 were $1.69 billion and $1.41 billion, respectively. As of June 30, 2018 and December 31, 2017, total cash collateral on financial derivative assets excludes excess net cash collateral pledged of $3.1 million and $6.4 million, respectively. As of June 30, 2018 and December 31, 2017, total cash collateral on financial derivative liabilities excludes excess cash collateral pledged of $9.8 million and $16.6 million, respectively.

(3) When collateral is pledged to or pledged by a counterparty, it is often pledged or posted with respect to all positions with such counterparty, and in such cases such collateral cannot be specifically identified as relating to a specific asset or liability. As a result, in preparing the above tables, the Company has made assumptions in allocating pledged or posted collateral among the various rows.

17. Commitments and Contingencies

The Company provides current directors and officers with a limited indemnification against liabilities arising in connection with the performance of their duties to the Company.

In the normal course of business the Company may also enter into contracts that contain a variety of representations, warranties, and general indemnifications. The Company's maximum exposure under these arrangements, including future claims that may be made against the Company that have not yet occurred, is unknown. The Company has not incurred any costs to defend lawsuits or settle claims related to these indemnification agreements. As of both June 30, 2018 and December 31, 2017, the Company has no liabilities recorded for these agreements.

Commitments and Contingencies Related to Investments in Mortgage Originators

In connection with certain of its investments in mortgage originators, the Company has outstanding commitments and contingencies as described below.

As described in Note 9, Related Party Transactions, the Company is party to a flow mortgage loan purchase and sale agreement with a mortgage originator. The Company has entered into two agreements whereby it guarantees the performance of this mortgage originator under master repurchase agreements. The Company's maximum guarantees are capped at $30.0 million. As of June 30, 2018 the mortgage originator had $16.3 million outstanding borrowings under these agreements guaranteed by the Company. The Company's obligation under these arrangements are deemed to be guarantees under ASC 460-10 and are carried at fair value and included in Other Liabilities on the Consolidated Statement of Assets, Liabilities, and Equity. As of both June 30, 2018 and December 31, 2017 the estimated fair value of such guarantees was zero.

18. Financial Highlights

Results of Operations for a Share Outstanding Throughout the Periods:

	Three-Month Period Ended June 30, 2018	Three-Month Period Ended June 30, 2017	Six-Month Period Ended June 30, 2018	Six-Month Period Ended June 30, 2017
Beginning Shareholders' Equity Per Share (3/31/2018, 3/31/2017, 12/31/2017, and 12/31/2016, respectively)	$ 19.56	$ 19.78	$ 19.15	$ 19.75
Net Investment Income	0.36	0.26	0.70	0.63
Net Realized/Unrealized Gains (Losses)	0.37	(0.09)	0.72	0.03
Results of Operations Attributable to Equity	0.73	0.17	1.42	0.66
Less: Results of Operations Attributable to Non-controlling Interests	(0.03)	(0.01)	(0.04)	(0.03)
Results of Operations Attributable to Shareholders' Equity[1]	0.70	0.16	1.38	0.63
Dividends Paid to Common Shareholders	(0.41)	(0.45)	(0.82)	(0.90)
Weighted Average Share Impact on Dividends Paid [2]	(0.01)	(0.01)	(0.02)	(0.02)
Accretive (Dilutive) Effect of Share Issuances (Net of Offering Costs), Share Repurchases, and Adjustments to Non-controlling Interest	0.05	0.01	0.20	0.03
Ending Shareholders' Equity Per Share (6/30/2018, 6/30/2017, 6/30/2018, and 6/30/2017, respectively)[3]	$ 19.89	$ 19.49	$ 19.89	$ 19.49
Shares Outstanding, end of period	30,149,880	32,112,697	30,149,880	32,112,697

(1) Calculated based on average common shares outstanding and can differ from the calculation for EPS (See Note 13).

(2) Per share impact on dividends paid relating to share issuances/repurchases during the period as well as dividends paid to LTIP and OP Unit holders.

(3) If all LTIP Units and OP Units previously issued were vested and exchanged for common shares as of June 30, 2018 and 2017, shareholders' equity per share would be $19.57 and $19.21, respectively.

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Total Return:

The Company calculates its total return two ways, one based on its reported net asset value and the other based on its publicly traded share price.

The following table illustrates the Company's total return for the periods presented based on net asset value:

Net Asset Value Based Total Return for a Shareholder: (1)

	Three-Month Period Ended June 30, 2018	Three-Month Period Ended June 30, 2017	Six-Month Period Ended June 30, 2018	Six-Month Period Ended June 30, 2017
Total Return	3.78%	0.82%	8.24%	3.32%

(1) Total return is calculated assuming reinvestment of distributions at shareholders' equity per share during the period.

Market Based Total Return for a Shareholder:

For the three-month periods ended June 30, 2018 and 2017, the Company's market based total return based on the closing price as reported by the New York Stock Exchange was 8.11% and 5.16%, respectively. For the six-month periods ended June 30, 2018 and 2017, the Company's market based total return based on the closing price as reported by the New York Stock Exchange was 13.55% and 10.29%, respectively. Calculation of market based total return assumes the reinvestment of dividends at the closing price as reported by the New York Stock Exchange as of the ex-date.

Net Investment Income Ratio to Average Equity: (1)(2)

	Three-Month Period Ended June 30, 2018	Three-Month Period Ended June 30, 2017	Six-Month Period Ended June 30, 2018	Six-Month Period Ended June 30, 2017
Net Investment Income	7.34%	5.24%	7.01%	6.31%

(1) Average equity is calculated using month end values.

(2) Includes all items of income and expense on an annualized basis except for incentive fee expense which is included on a non-annualized basis.

Expense Ratios to Average Equity: (1)(2)

	Three-Month Period Ended June 30, 2018	Three-Month Period Ended June 30, 2017	Six-Month Period Ended June 30, 2018	Six-Month Period Ended June 30, 2017
Operating expenses, before interest expense and other investment related expenses	(3.01)%	(2.83)%	(2.84)%	(2.83)%
Incentive fee	(0.05)%	—%	(0.05)%	—%
Interest expense and other investment related expenses	(11.23)%	(6.02)%	(10.39)%	(5.37)%
Total Expenses	(14.29)%	(8.85)%	(13.28)%	(8.20)%

(1) Average equity is calculated using month end values.

(2) Ratios are annualized except for the incentive fee which is not annualized.

19. Subsequent Events

On August 1, 2018, the Company's Board of Directors approved a dividend for the second quarter of 2018 in the amount of $0.41 per share payable on September 17, 2018 to shareholders of record as of August 31, 2018.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Except where the context suggests otherwise, "EFC," "we," "us," and "our" refer to Ellington Financial LLC and its consolidated subsidiaries, including Ellington Financial Operating Partnership LLC, our operating partnership subsidiary, which we refer to as our "Operating Partnership." We conduct all of our operations and business activities through our Operating Partnership. Our "Manager" refers to Ellington Financial Management LLC, our external manager, "Ellington" refers to Ellington Management Group, L.L.C. and its affiliated investment advisory firms, including our Manager, and "Manager Group" refers collectively to Ellington and its principals (including family trusts established by its principals) and entities in which 100% of the interests are beneficially owned by the foregoing. In certain instances, references to our Manager and services to be provided to us by our Manager may also include services provided by Ellington and its other affiliates from time to time.

Special Note Regarding Forward-Looking Statements

When used in this Quarterly Report on Form 10-Q, in future filings with the Securities and Exchange Commission, or the "SEC," or in press releases or other written or oral communications, statements which are not historical in nature, including those containing words such as "believe," "expect," "anticipate," "estimate," "project," "plan," "continue," "intend," "should," "would," "could," "goal," "objective," "will," "may," "seek," or similar expressions, are intended to identify "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, or the "Securities Act," and Section 21E of the Securities Exchange Act of 1934, as amended, or the "Exchange Act," and, as such, may involve known and unknown risks, uncertainties, and assumptions.

Forward-looking statements are based on our beliefs, assumptions, and expectations of our future operations, business strategies, performance, financial condition, liquidity and prospects, taking into account information currently available to us. These beliefs, assumptions, and expectations are subject to risks and uncertainties and can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity, results of operations and strategies may vary materially from those expressed or implied in our forward-looking statements. The following factors are examples of those that could cause actual results to vary from our forward-looking statements: changes in interest rates and the market value of our securities; market volatility; changes in the prepayment rates on the mortgage loans underlying the securities owned by us for which the principal and interest payments are guaranteed by a U.S. government agency or a U.S. government-sponsored entity; increased rates of default and/or decreased recovery rates on our assets; our ability to borrow to finance our assets; changes in government regulations affecting our business; our ability to maintain our exclusion from registration under the Investment Company Act of 1940, as amended, or the "Investment Company Act"; and risks associated with investing in real estate assets, including changes in business conditions and the general economy. These and other risks, uncertainties and factors, including the risk factors described under Item 1A of our Annual Report on Form 10-K, could cause our actual results to differ materially from those projected or implied in any forward-looking statements we make. All forward-looking statements speak only as of the date on which they are made. New risks and uncertainties arise over time, and it is not possible to predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Executive Summary

We are a specialty finance company that invests in a diverse array of financial assets, including residential mortgage-backed securities, or "RMBS," commercial mortgage-backed securities, or "CMBS," residential and commercial mortgage loans, consumer loans and asset-backed securities, or "ABS," backed by consumer loans, collateralized loan obligations, or "CLOs," corporate equity and debt securities (including distressed debt), non-mortgage and mortgage-related derivatives, equity investments in mortgage-related entities, and other strategic investments. We are externally managed and advised by our Manager, an affiliate of Ellington. Ellington is a registered investment adviser with a 23-year history of investing in the credit markets.

We conduct all of our operations and business activities through the Operating Partnership. As of June 30, 2018, we have an ownership interest of approximately 99.3% in the Operating Partnership. The interest of approximately 0.7% not owned by us represents the interest in the Operating Partnership that is owned by an affiliate of our Manager and certain related parties, and is reflected in our financial statements as a non-controlling interest.

Our primary objective is to generate attractive, risk-adjusted total returns for our shareholders. We seek to attain this objective by utilizing an opportunistic strategy to make investments, without restriction as to ratings, structure, or position in the capital structure, that we believe compensate us appropriately for the risks associated with them rather than targeting a specific yield. Our evaluation of the potential risk-adjusted return of any potential investment typically involves weighing the potential returns of such investment under a variety of economic scenarios against the perceived likelihood of the various scenarios. Potential investments subject to greater risk (such as those with lower credit ratings and/or those with a lower position in the capital structure) will generally require a higher potential return to be attractive in comparison to investment alternatives with lower potential return and a lower degree of risk. However, at any particular point in time, depending on how we perceive the market's pricing of risk both generally and across sectors, we may favor higher-risk assets or we may favor lower-risk assets, or a combination of the two, in the interests of portfolio diversification or other considerations.

Through June 30, 2018, our Credit portfolio, which includes all of our investments other than RMBS for which the principal and interest payments are guaranteed by a U.S. government agency or a U.S. government-sponsored entity, or "Agency RMBS," has been the primary driver of our risk and return, and we expect that this will continue in the near- to medium-term. For more information on our targeted assets, see "—Our Targeted Asset Classes" below. We believe that Ellington's capabilities allow our Manager to identify attractive assets in these classes, value these assets, monitor and forecast the performance of these assets, and opportunistically hedge our risk with respect to these assets.

We continue to maintain a highly leveraged portfolio of Agency RMBS to take advantage of opportunities in that market sector and to maintain our exclusion from registration as an investment company under the Investment Company Act. Unless we acquire very substantial amounts of whole mortgage loans or there are changes to the rules and regulations applicable to us under the Investment Company Act, we expect that we will always maintain some core amount of Agency RMBS.

The strategies that we employ are intended to capitalize on opportunities in the current market environment. We intend to adjust our strategies to changing market conditions by shifting our asset allocations across various asset classes as credit and liquidity trends evolve over time. We believe that this flexibility, combined with Ellington's experience, will help us generate more consistent returns on our capital throughout changing market cycles.

We also use leverage in our Credit strategy, albeit significantly less leverage than that used in our Agency RMBS strategy. Through June 30, 2018, we financed the vast majority of our Agency RMBS assets, and the majority of our Credit assets, through reverse repurchase agreements, or "reverse repos," which we account for as collateralized borrowings. We expect to continue to finance the vast majority of our Agency RMBS through the use of reverse repos. In addition to financing assets through reverse repos, we also enter into other secured borrowing transactions, which are accounted for as collateralized borrowings, to finance certain of our loan assets. In addition, we have obtained term financing for certain of our non-qualified mortgage, or "non-QM," loans, certain of our consumer loans, and certain of our leveraged corporate loans through the securitization markets. We have also issued unsecured long-term debt.

As of June 30, 2018, outstanding borrowings under reverse repos and Total other secured borrowings (which include Other secured borrowings and Other secured borrowings, at fair value, as presented on our Consolidated Statement of Assets, Liabilities, and Equity) were $1.6 billion. Of our total borrowings outstanding under reverse repos and Total other secured borrowings, approximately 55%, or $891.1 million, relates to our Agency RMBS holdings, as of June 30, 2018. The remaining outstanding borrowings relate to our Credit portfolio and U.S. Treasury securities.

As of June 30, 2018 we also had $86.0 million outstanding of unsecured long-term debt, which matures in September of 2022, or the "Senior Notes." The Senior Notes bear interest at a rate of 5.25%, subject to adjustment based on changes, if any, in the ratings of the Senior Notes. Inclusive of debt issuance costs, the effective interest rate on the Senior Notes is 5.55%. See Note 7 of the notes to our consolidated financial statements for further detail on the Senior Notes.

Our debt-to-equity ratio was 2.78 to 1 as of June 30, 2018. Our debt-to-equity ratio does not account for liabilities other than debt financings and does not include debt associated with securitization transactions accounted for as sales.

During the three-month period ended June 30, 2018 we repurchased 242,161 common shares at an average price per share of $14.98 and a total cost of $3.6 million. During the six-month period ended June 30, 2018 we repurchased 1,186,058 common shares at an average price per share of $14.83 and a total cost of $17.6 million. In addition to making discretionary repurchases, we from time to time use 10b5-1 plans to increase the number of trading days available to implement these repurchases.

We opportunistically hedge our credit risk, interest rate risk, and foreign currency risk; however, at any point in time we may choose not to hedge all or a portion of these risks, and we will generally not hedge those risks that we believe are appropriate for us to take at such time, or that we believe would be impractical or prohibitively expensive to hedge.

We believe that we have been organized and have operated so that we have qualified to be treated for U.S. federal income tax purposes as a partnership and not as an association or a publicly traded partnership taxable as a corporation. In connection with the passage of the Tax Cuts and Jobs Act, or "TCJA," in December 2017, which resulted in significant changes to the U.S. tax code, we are actively evaluating the potential actions we may take, including possible changes to our structure as a publicly traded partnership.

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We also measure our book value per share and our total return on a diluted basis, assuming all convertible units were converted into common shares at their respective issuance dates. As of June 30, 2018, our diluted book value per share was $19.57, as compared to $19.25 and $18.85 as of March 31, 2018 and December 31, 2017, respectively. On a diluted basis, the Company's net-asset-value-based total return for the three- and six-month periods ended June 30, 2018 was 3.80% and 8.24%, respectively. Additionally our diluted net-asset-value-based total return was 195.73% from our inception (August 17, 2007) through June 30, 2018, and our annualized inception-to-date diluted net-asset-value-based total return was 10.49% as of June 30, 2018.

Our Targeted Asset Classes

Our targeted asset classes currently include investments in the U.S. and Europe (as applicable) in the following categories:

Asset Class	Principal Assets
Agency RMBS	. Whole pool pass-through certificates; . Partial pool pass-through certificates; . Agency collateralized mortgage obligations, or "CMOs," including interest only securities, or "IOs," principal only securities, or "POs," inverse interest only securities, or "IIOs"; and . To-Be-Announced mortgage pass-through certificates, or "TBAs."
CLOs	. Equity and mezzanine tranches of CLOs; and . Retained tranches from securitizations to which we have contributed assets.
CMBS and Commercial Mortgage Loans	. CMBS; and . Commercial mortgages and other commercial real estate debt.
Consumer Loans and ABS	. Consumer loans; . ABS backed by consumer loans; and . Retained tranches from securitizations to which we have contributed assets.
Corporate Debt and Equity and Derivatives	. Corporate debt or equity, including distressed debt and equity; . Credit default swaps, or "CDS," on corporations or on corporate indices, or "CDX"; . Options or total return swaps on corporate equity or debt or on corporate equity indices; and . Corporate credit relative value strategies.
Mortgage-Related Derivatives	. CDS on individual RMBS, on the ABX, CMBX and PrimeX indices and on other mortgage-related indices; and . Other mortgage-related derivatives.
Non-Agency and UK Non-Conforming RMBS	. RMBS backed by prime jumbo, Alt-A, manufactured housing, and subprime mortgages; . RMBS backed by fixed rate mortgages, Adjustable rate mortgages, or "ARMs," Option-ARMs, and Hybrid ARMs; . RMBS backed by first lien and second lien mortgages; . RMBS backed by mortgages originated in the United Kingdom; . Investment grade and non-investment grade securities; . Senior and subordinated securities; . IOs, POs, IIOs, and inverse floaters; and . Collateralized debt obligations, or "CDOs."

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Residential Mortgage Loans	. Residential non-performing mortgage loans, or "NPLs"; . Re-performing loans, or "RPLs," which generally are loans that were modified and/or formerly NPLs where the borrower has resumed making payments in some form or amount; . Property rehabilitation loans and bridge loans; . Non-QM loans; and . Retained tranches from securitizations to which we have contributed assets.
Other	. Real estate, including commercial and residential real property; . Strategic debt and/or equity investments in mortgage originators and other mortgage -related entities; . Mortgage servicing rights, or "MSRs"; . Credit risk transfer securities, or "CRTs"; and . Other non-mortgage-related derivatives.

Agency RMBS

Our Agency RMBS assets consist primarily of whole pool (and to a lesser extent, partial pool) pass-through certificates, the principal and interest of which are guaranteed by a federally chartered corporation, such as the Federal National Mortgage Association, or "Fannie Mae," the Federal Home Loan Mortgage Corporation, or "Freddie Mac," or the Government National Mortgage Association, within the U.S. Department of Housing and Urban Development, or "Ginnie Mae," and which are backed by ARMs, Hybrid ARMs, or fixed-rate mortgages. In addition to investing in pass-through certificates which are backed by traditional mortgages, we have also invested in Agency RMBS backed by reverse mortgages. Reverse mortgages are mortgage loans for which neither principal nor interest is due until the borrower dies, the home is sold, or other trigger events occur. Mortgage pass-through certificates are securities representing undivided interests in pools of mortgage loans secured by real property where payments of both interest and principal, plus prepaid principal, on the securities are made monthly to holders of the security, in effect "passing through" monthly payments made by the individual borrowers on the mortgage loans that underlie the securities, net of fees paid to the issuer/guarantor and servicers of the securities. Whole pool pass-through certificates are mortgage pass-through certificates that represent the entire ownership of (as opposed to merely a partial undivided interest in) a pool of mortgage loans.

Our Agency RMBS assets are typically concentrated in specified pools. Specified pools are fixed-rate Agency pools consisting of mortgages with special characteristics, such as mortgages with low loan balances, mortgages backed by investor properties, mortgages originated through the government-sponsored "Making Homes Affordable" refinancing programs, and mortgages with various other characteristics. Our Agency strategy also includes RMBS that are backed by ARMs or Hybrid ARMs and reverse mortgages, and CMOs, including IOs, POs, and IIOs.

TBAs

In addition to investing in specific pools of Agency RMBS, we utilize forward-settling purchases and sales of Agency RMBS where the underlying pools of mortgage loans are TBAs. Pursuant to these TBA transactions, we agree to purchase or sell, for future delivery, Agency RMBS with certain principal and interest terms and certain types of underlying collateral, but the particular Agency RMBS to be delivered is not identified until shortly before the TBA settlement date. TBAs are liquid and have quoted market prices and represent the most actively traded class of mortgage-backed securities, or "MBS." TBA trading is based on the assumption that mortgage pools that are eligible to be delivered at TBA settlement are fungible and thus the specific mortgage pools to be delivered do not need to be explicitly identified at the time a trade is initiated.

We primarily engage in TBA transactions for purposes of managing certain risks associated with our investment strategies. The principal risks that we use TBAs to mitigate are interest rate and yield spread risks. For example, we may hedge the interest rate and/or yield spread risk inherent in our long Agency RMBS by taking short positions in TBAs that are similar in character. Alternatively, we may engage in TBA transactions because we find them attractive in their own right, from a relative value perspective or otherwise.

CLOs

We acquire CLOs, a form of asset-backed security collateralized by syndicated corporate loans. Our current CLO holdings include mezzanine and equity interests, and are concentrated in securitizations that have exited the reinvestment period. We also have retained, and may retain in the future, tranches from CLO securitizations for which we have participated

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in the accumulation of the underlying assets. In some cases, we accumulate assets directly and sell them to the securitization vehicle on or prior to CLO pricing, and in other cases we may provide capital to a vehicle accumulating assets for such CLO securitization, and such vehicle may enter into a warehouse financing facility in order to facilitate such accumulation. Securitizations can effectively provide us with long-term, locked-in financing on the related collateral pool, with an effective cost of funds well below the expected yield on the collateral pool.

CMBS

We acquire CMBS, which are securities collateralized by mortgage loans on commercial properties. The majority of CMBS issued are fixed rate securities backed by fixed rate loans made to multiple borrowers on a variety of property types, though single-borrower CMBS and floating rate CMBS have also been issued.

The majority of CMBS utilize senior/subordinate structures, similar to those found in non-Agency RMBS. Subordination levels vary so as to provide for one or more AAA credit ratings on the most senior classes, with less senior securities rated investment grade and non-investment grade, including a first loss component which is typically unrated. This first loss component is commonly referred to as the "B-piece," which is the most subordinated (and therefore highest yielding and riskiest) tranche of a CMBS securitization. Much of our focus within the CMBS sector has been on B-pieces.

Commercial Mortgage Loans and Other Commercial Real Estate Debt

We acquire commercial mortgage loans, which are loans secured by liens on commercial properties, including retail, office, industrial, hotel, and multi-family properties. Loans may be fixed or floating rate and will generally range from two to ten years. We may acquire both first lien loans and subordinated loans. Commercial real estate debt typically limits the borrower's right to freely prepay for a period of time through provisions such as prepayment fees, lockout, yield maintenance, or defeasance provisions.

The commercial mortgage loans that we acquire may be non-performing, underperforming, or otherwise distressed; the loans are typically acquired at a discount both to their unpaid principal balances and to the value of the underlying real estate. In addition, we also opportunistically participate in the origination of "bridge" loans, which have shorter terms and higher interest rates than more traditional commercial mortgage loans. Bridge loans are typically secured by properties in transition, where the borrower is in the process of either re-developing or stabilizing operations at the property. Within both our distressed and bridge loan strategies, we focus on smaller balance loans and loan packages that are less-competitively-bid. These loans typically have balances that are less than $20 million, and are secured by real estate and, in some cases, a personal guarantee from the borrower. Properties securing these loans may include multi-family, retail, office, industrial, and other commercial property types.

Consumer Loans and ABS

We acquire U.S. consumer whole loans and ABS backed by U.S. consumer loans. Our U.S. consumer loan portfolio primarily consists of unsecured loans, but also includes secured auto loans. We are currently purchasing newly originated consumer loans under flow agreements with originators, and we continue to evaluate new opportunities. We seek to purchase newly originated consumer loans from originators that have demonstrated disciplined underwriting with a significant focus on regulatory compliance and sound lending practices. Our ABS backed by U.S. consumer loans consist of retained tranches of our consumer loan securitizations. Through securitization of our consumer loans, we are essentially able to achieve long-term financing for the securitized pool. We also acquire non-dollar denominated ABS backed by European non-performing consumer loans.

Corporate Debt and Equity and Derivatives

We acquire corporate debt and equity, both distressed and non-distressed, and both secured and unsecured. Distressed corporate debt instruments are typically obligations of companies that are experiencing distress or dislocation resulting from over-leveraged capital structures or other financial or operational issues. These companies may default on their obligations, or be involved in bankruptcy or restructuring proceedings. In addition to making outright purchases of distressed corporate loans, we may also acquire exposure to distressed corporate loans synthetically through total return swaps. In connection with our investments in distressed corporate debt, we may also acquire the equity of reorganized corporations that have exited bankruptcy.

We take long and short positions in corporate debt and equity (including indices on corporate debt and equity) either outright in the "cash" markets, or synthetically by entering into derivative contracts such as credit default swaps, total return swaps, and options. A credit event relating to a credit default swap on an individual corporation or an index of corporate credits would typically be triggered by a corporation's bankruptcy or its failure to make a scheduled payment on a debt obligation. We take positions in the corporate debt and equity markets both for investment purposes and for hedging purposes. When used for hedging purposes, they do not necessarily serve to hedge against risks that are directly related to specific corporate entities or indices, but rather they may reflect our belief that the performance of certain entities or indices may have a reasonable degree of correlation with the performance of certain other parts of our portfolio.

A total return swap is a derivative whereby one party makes payments to the other representing the total return on a reference debt or equity security (or index of debt or equity securities) in exchange for an agreed upon ongoing periodic premium. An equity option is a derivative that gives the holder the option to buy or sell an equity security or index of securities at a predetermined price within a certain time period. The option may reference the equity of a publicly traded company or an equity index. In addition to general market risk, our derivatives on corporate debt and equity are subject to risks related to the underlying corporate entities.

In our corporate credit relative value trading strategy, we seek to identify and capitalize on short-term pricing disparities in the corporate credit markets. As a subset of this strategy, we often engage in "basis trading," where we hold long or short positions in the bonds of a corporate issuer and simultaneously hold offsetting positions in credit default swaps referencing the same corporate issuer.

Mortgage-Related Derivatives

We take long and short positions in various mortgage-related derivative instruments, including credit default swaps. A credit default swap is a credit derivative contract in which one party (the protection buyer) pays an ongoing periodic premium (and often an upfront payment as well) to another party (the protection seller) in return for compensation for default (or similar credit event) by a reference entity. In this case, the reference entity can be an individual MBS or an index of several MBS, such as an ABX, PrimeX, or CMBX index. Payments from the protection seller to the protection buyer typically occur if a credit event takes place. A credit event can be triggered by, among other things, the reference entity's failure to pay its principal obligations or a severe ratings downgrade of the reference entity.

Non-Agency and UK Non-Conforming RMBS

We acquire non-Agency and UK non-conforming RMBS backed by prime jumbo, Alt-A, manufactured housing, and subprime residential mortgage loans. Our non-Agency and UK non-conforming RMBS holdings can include investment-grade and non-investment grade classes, including non-rated classes.

Non-Agency RMBS are generally debt obligations issued by private originators of, or investors in, residential mortgage loans. Non-Agency RMBS generally are issued as CMOs and are backed by pools of whole mortgage loans or by mortgage pass-through certificates. Non-Agency RMBS generally are securitized in senior/subordinated structures, or in excess spread/over-collateralization structures. In senior/subordinated structures, the subordinated tranches generally absorb all losses on the underlying mortgage loans before any losses are borne by the senior tranches. In excess spread/over-collateralization structures, losses are first absorbed by any existing over-collateralization, then borne by subordinated tranches and excess spread, which represents the difference between the interest payments received on the mortgage loans backing the RMBS and the interest due on the RMBS debt tranches, and finally by senior tranches and any remaining excess spread.

UK non-conforming RMBS are pools backed by mortgages originated in the United Kingdom, usually before the financial crisis. At the time of underwriting, the borrower did not meet the "prime" lending standards of UK high street banks and building societies, typically due to prior credit blemishes, higher loan-to-value ratios, or being self-employed.

Residential Mortgage Loans

Our residential mortgage loans include newly originated non-QM loans, property rehabilitation loans and bridge loans, as well as legacy residential NPLs and RPLs. A non-QM loan is not necessarily high-risk, or subprime, but is instead a loan that does not conform to the complex Qualified Mortgage, or "QM," rules of the Consumer Financial Protection Bureau. For example, many non-QM loans are made to creditworthy borrowers who cannot provide traditional documentation for income, such as borrowers who are self-employed. There is also demand from certain creditworthy borrowers for loans above the QM 43% debt-to-income ratio limit that still meet all ability-to-repay standards. We hold an equity investment in a non-QM originator, and to date we have purchased all of our non-QM loans from this originator, although we could potentially purchase non-QM loans from other sources in the future.

The property rehabilitation loans that we originate or purchase are made to real estate investors with varying levels of experience in acquiring residential homes, making value-add improvements to such homes, and reselling the newly rehabilitated homes for a profit. The bridge loans that we originate or purchase are made to real estate investors for a "business purpose," such as purchasing a rental investment property, financing or refinancing a fully rehabilitated home awaiting sale, or securing short-term financing while a borrower waits to qualify for longer-term lower-rate financing. Our property rehabilitation loans and our bridge loans are always secured by non-owner occupied properties, and are typically structured as fixed-rate, interest-only loans with terms to maturity between 12 and 24 months. Our underwriting guidelines for both of these loan programs focus on both the "as is" and "as repaired" property values, borrower experience as a real estate investor, and asset verification.

We remain active in the market for residential NPLs and RPLs. The market for large residential NPL and RPL pools has remained highly concentrated, with the great majority having traded to only a handful of large players who typically securitize the residential NPLs and RPLs that they purchase. As a result, we have continued to focus our acquisitions on smaller, less-competitively-bid, and more attractively-priced mixed legacy pools sourced from motivated sellers.

Other Investment Assets

Our other investment assets include real estate, including residential and commercial real property, strategic debt and/or equity investments in mortgage originators, and other non-mortgage related derivatives. We do not typically purchase real property directly; rather, our real estate ownership usually results from foreclosure activity with respect to our acquired residential and commercial loans. We have made investments in mortgage originators and other mortgage-related entities in the form of debt and/or equity and, to date, our investments represent non-controlling interests. We have also entered into flow agreements with certain of the mortgage originators in which we have invested. We have not yet acquired mortgage servicing rights or credit risk transfer securities, but we may do so in the future.

Hedging Instruments

Credit Risk Hedging

We enter into credit-hedging positions in order to protect against adverse credit events with respect to our Credit investments. Our credit hedging portfolio can vary significantly from period to period, and can encompass a wide variety of financial instruments, including corporate debt or equity-related instruments, RMBS- or CMBS-related instruments, or instruments involving other markets. Our hedging instruments can include both "single-name" instruments (i.e., instruments referencing one underlying entity or security) and hedging instruments referencing indices. We also opportunistically overlay our credit hedges with certain relative value long/short positions involving the same or similar instruments.

Currently, our credit hedges consist primarily of financial instruments tied to corporate credit, such as CDS on corporate bond indices, short positions in and CDS on corporate bonds; and positions involving exchange traded funds, or "ETFs,