

Ellington Financial LLC  
Form 10-Q  
November 09, 2018  
Table of Contents

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

FORM 10-Q

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

For the quarterly period ended September 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 every Interactive Data File required to be submitted 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 such files). Yes x No ..

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth 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 Smaller Reporting Company x

(Do not check if a 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 November  
6, 2018

Common Shares Representing Limited Liability Company Interests, no par value	30,013,574
--	------------

---

Table of Contents

ELLINGTON FINANCIAL LLC

INDEX

Part I. Financial Information

Item 1. Consolidated Financial Statements (unaudited)	<u>3</u>
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>80</u>
Item 3. Quantitative and Qualitative Disclosures about Market Risk	<u>110</u>
Item 4. Controls and Procedures	<u>113</u>

Part II. Other Information

Item 1. Legal Proceedings	<u>113</u>
Item 1A. Risk Factors	<u>114</u>
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	<u>114</u>
Item 6. Exhibits	<u>114</u>

---

Table of Contents

## PART I—FINANCIAL INFORMATION

## Item 1. Consolidated Financial Statements (Unaudited)

## ELLINGTON FINANCIAL LLC

## CONSOLIDATED STATEMENT OF ASSETS, LIABILITIES, AND EQUITY

(UNAUDITED)

	September 30, 2018	December 31, 2017
(In thousands except share amounts)		
	Expressed in U.S. Dollars	
<b>ASSETS</b>		
Cash and cash equivalents	\$53,598	\$ 47,233
Restricted cash	425	425
Investments, financial derivatives, and repurchase agreements:		
Investments, at fair value (Cost – \$2,694,223 and \$2,071,754)	2,670,069	2,071,707
Financial derivatives—assets, at fair value (Net cost – \$20,895 and \$31,474)	31,338	28,165
Repurchase agreements, at fair value (Cost – \$160,468 and \$155,109)	160,422	155,949
Total investments, financial derivatives, and repurchase agreements	2,861,829	2,255,821
Due from brokers	83,915	140,404
Receivable for securities sold and financial derivatives	670,952	476,000
Interest and principal receivable	38,635	29,688
Other assets	5,207	43,770
Total Assets	\$3,714,561	\$ 2,993,341
<b>LIABILITIES</b>		
Investments and financial derivatives:		
Investments sold short, at fair value (Proceeds – \$697,686 and \$640,202)	\$695,349	\$ 642,240
Financial derivatives—liabilities, at fair value (Net proceeds – \$16,294 and \$27,463)	27,226	36,273
Total investments and financial derivatives	722,575	678,513
Reverse repurchase agreements	1,636,039	1,209,315
Due to brokers	4,551	1,721
Payable for securities purchased and financial derivatives	430,808	202,703
Other secured borrowings (Proceeds – \$114,190 and \$57,909)	114,190	57,909
Other secured borrowings, at fair value (Proceeds – \$90,409 and \$125,105)	89,569	125,105
Senior notes, net	84,968	84,771
Accounts payable and accrued expenses	5,337	3,885
Base management fee payable to affiliate	1,830	2,113
Incentive fee payable to affiliate	424	—
Interest and dividends payable	6,451	5,904
Other liabilities	1,141	441
Total Liabilities	3,097,883	2,372,380
<b>EQUITY</b>	616,678	620,961
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$3,714,561</b>	<b>\$ 2,993,341</b>
Commitments and contingencies (Note 17)		
<b>ANALYSIS OF EQUITY:</b>		
Common shares, no par value, 100,000,000 shares authorized; (30,155,055 and 31,335,938 shares issued and outstanding)	\$583,179	\$ 589,722
Additional paid-in capital – Long term incentive plan units	10,618	10,377
Total Shareholders' Equity	593,797	600,099
Non-controlling interests	22,881	20,862
Total Equity	\$616,678	\$ 620,961

PER SHARE INFORMATION:

Common shares	\$19.69	\$ 19.15
---------------	---------	----------

See Notes to Consolidated Financial Statements

3

---

Table of Contents

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

Current Principal/Number of Shares (In thousands)	Description	Rate	Maturity	Fair Value
				Expressed in U.S. Dollars
Cash				
Equivalents—Money				
Market Funds				
(1.38%) (a) (b)				
North America				
Funds				
\$8,502	Various	1.92% - 1.96%		\$ 8,502
Total Cash				
Equivalents—Money				
Market Funds (Cost				
\$8,502)				
Long Investments (432.98%) (a) (b) (ae)				
Mortgage-Backed Securities (267.14%)				
Agency Securities (202.37%) (c)				
Fixed Rate Agency Securities (189.05%)				
Principal and Interest - Fixed Rate Agency Securities (137.91%)				
North America				
Mortgage-related—Residential				
\$142,232	Federal National Mortgage Association Pools (30 Year)	4.00%	9/39 - 9/48	\$144,555
116,796	Federal Home Loan Mortgage Corporation Pools (30 Year)	4.00%	11/41 - 9/48	118,777
84,194	Federal National Mortgage Association Pools (30 Year)	3.50%	9/42 - 2/48	83,182
69,656	Federal National Mortgage Association Pools (30 Year)	4.50%	10/41 - 9/48	72,403
54,151	Government National Mortgage Association Pools (30 Year)	4.00%	7/45 - 5/48	55,026
46,289	Federal Home Loan Mortgage Corporation Pools (30 Year)	4.50%	9/43 - 9/48	48,076
44,474	Government National Mortgage Association Pools (30 Year)	5.00%	2/48 - 8/48	46,735
44,456	Federal National Mortgage Association Pools (15 Year)	3.50%	3/28 - 3/32	44,747
38,966	Federal National Mortgage Association Pools (30 Year)	5.00%	10/35 - 8/48	41,243
32,509	Government National Mortgage Association Pools (30 Year)	3.50%	12/42 - 2/47	32,243
30,083	Government National Mortgage Association Pools (30 Year)	4.50%	9/46 - 8/48	31,271
26,297	Federal Home Loan Mortgage Corporation Pools (30 Year)	3.50%	1/42 - 3/48	26,009
15,780	Government National Mortgage Association Pools (30 Year)	5.50%	4/48 - 8/48	16,791
11,259	Federal National Mortgage Association Pools (15 Year)	3.00%	4/30 - 9/32	11,139
8,447	Federal Home Loan Mortgage Corporation Pools (15 Year)	3.50%	9/28 - 12/32	8,503
8,136	Federal Home Loan Mortgage Corporation Pools (Other)	3.50%	2/30 - 9/46	8,061
6,022	Federal National Mortgage Association Pools (15 Year)	4.00%	6/26 - 5/31	6,138
5,048	Federal National Mortgage Association Pools (30 Year)	5.50%	10/39 - 6/48	5,419
5,541	Government National Mortgage Association Pools (30 Year)	3.00%	11/42 - 5/48	5,364
5,029	Federal Home Loan Mortgage Corporation Pools (30 Year)	5.00%	7/44 - 4/48	5,295
4,797	Federal National Mortgage Association Pools (Other)	5.00%	9/43 - 1/44	5,045
4,413	Federal National Mortgage Association Pools (Other)	4.00%	12/47	4,446

Edgar Filing: Ellington Financial LLC - Form 10-Q

2,792	Federal Home Loan Mortgage Corporation Pools (30 Year)	3.00%	7/43 - 6/45	2,689
2,524	Federal Home Loan Mortgage Corporation Pools (Other)	4.50%	5/44	2,610
2,639	Federal National Mortgage Association Pools (30 Year)	3.00%	1/42 - 6/45	2,543
2,519	Government National Mortgage Association Pools (30 Year)	3.75%	7/47	2,517
2,341	Federal National Mortgage Association Pools (Other)	4.50%	5/41	2,396
2,313	Federal National Mortgage Association Pools (15 Year)	4.50%	4/26	2,391
2,389	Federal Home Loan Mortgage Corporation Pools (15 Year)	3.00%	4/30	2,362
1,757	Federal Home Loan Mortgage Corporation Pools (30 Year)	5.50%	8/33 - 5/48	1,890
1,575	Federal National Mortgage Association Pools (20 Year)	4.00%	12/33	1,612

See Notes to Consolidated Financial Statements

4

---

Table of Contents

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

Current Value (In thousands) (continued)	Principal/Notional Description	Rate	Maturity	Fair Value Expressed in U.S. Dollars
\$1,232	Government National Mortgage Association Pools (30 Year)	6.00%	5/48	\$ 1,323
1,063	Federal Home Loan Mortgage Corporation Pools (15 Year)	4.00%	2/29	1,085
1,070	Federal Home Loan Mortgage Corporation Pools (Other)	3.00%	6/28 - 3/30	1,054
988	Federal Home Loan Mortgage Corporation Pools (20 Year)	4.50%	12/33	1,030
860	Federal National Mortgage Association Pools (30 Year)	6.00%	9/39 - 2/40	929
851	Federal Home Loan Mortgage Corporation Pools (30 Year)	6.00%	5/40	923
866	Federal National Mortgage Association Pools (Other)	3.00%	10/46	825
646	Government National Mortgage Association Pools (30 Year)	2.49%	10/43	598
545	Government National Mortgage Association Pools (Other)	3.50%	10/30 - 2/32	533
430	Federal National Mortgage Association Pools (Other)	3.50%	4/26	433
143	Government National Mortgage Association Pools (Other)	3.00%	6/30	137
110	Federal National Mortgage Association Pools (30 Year)	3.28%	6/42	105
				850,453
Interest Only - Fixed Rate Agency Securities (1.92%)				
North America				
Mortgage-related—Residential				
18,398	Government National Mortgage Association	4.00%	2/45 - 6/45	3,164
11,223	Federal National Mortgage Association	4.50%	12/20 - 6/44	1,450
5,000	Government National Mortgage Association	6.00%	6/38 - 8/39	1,050
6,464	Government National Mortgage Association	4.50%	6/39 - 7/44	902
3,554	Federal National Mortgage Association	5.50%	10/39	795
3,816	Government National Mortgage Association	5.50%	11/43	683
3,728	Federal National Mortgage Association	4.00%	5/39 - 11/43	603
3,807	Federal Home Loan Mortgage Corporation	3.50%	12/32	559
2,937	Federal National Mortgage Association	5.00%	1/38 - 5/40	512
5,658	Federal Home Loan Mortgage Corporation	5.00%	11/38	494
4,101	Federal Home Loan Mortgage Corporation	5.50%	1/39 - 9/39	403
1,703	Federal National Mortgage Association	6.00%	1/40	301
1,507	Federal Home Loan Mortgage Corporation	4.50%	7/43	294
3,444	Government National Mortgage Association	5.00%	5/37 - 5/41	228
2,363	Federal National Mortgage Association	3.00%	9/41	225
893	Government National Mortgage Association	4.75%	7/40	180
				11,843
TBA - Fixed Rate Agency Securities (49.22%)				
North America				
Mortgage-related—Residential				
120,155	Government National Mortgage Association (30 Year)	5.00%	10/18	125,444
70,409	Government National Mortgage Association (30 Year)	4.50%	10/18	72,757
66,903	Federal National Mortgage Association (30 Year)	4.00%	10/18	67,554
21,540	Federal Home Loan Mortgage Corporation (30 Year)	3.50%	10/18	21,200



Edgar Filing: Ellington Financial LLC - Form 10-Q

10,579	Government National Mortgage Association (30 Year)	5.50% 10/18	11,159
3,740	Government National Mortgage Association (30 Year)	4.00% 10/18	3,802

See Notes to Consolidated Financial Statements

5

---

Table of Contents

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

Current Value (In thousands) (continued)	Principal/Notional Description	Rate	Maturity	Fair Value Expressed in U.S. Dollars
\$1,660	Federal Home Loan Mortgage Corporation (15 Year)	3.00%	10/18	\$ 1,636 303,552
	Total Fixed Rate Agency Securities (Cost \$1,193,517)			1,165,848
	Floating Rate Agency Securities (13.32%)			
	Principal and Interest - Floating Rate Agency Securities (9.88%)			
	North America			
	Mortgage-related—Residential			
53,067	Government National Mortgage Association Pools	4.40% - 4.67%	7/61 - 12/67	55,396
3,555	Federal National Mortgage Association Pools	2.70% - 4.69%	9/35 - 5/45	3,684
1,822	Federal Home Loan Mortgage Corporation Pools	3.49% - 4.72%	6/37 - 5/44	1,855 60,935
	Interest Only - Floating Rate Agency Securities (3.44%)			
	North America			
	Mortgage-related—Residential			
263,738	Other Government National Mortgage Association	0.40% - 5.94%	6/31 - 10/66	12,099
80,590	Other Federal National Mortgage Association	1.12% - 5.50%	6/33 - 11/46	5,543
52,492	Other Federal Home Loan Mortgage Corporation	1.61% - 4.49%	3/36 - 1/44	3,432
6,544	Resecuritization of Government National Mortgage Association (d)	2.38%	8/60	133 21,207
	Total Floating Rate Agency Securities (Cost \$85,774)			82,142
	Total Agency Securities (Cost \$1,279,291)			1,247,990
	Private Label Securities (64.77%)			
	Principal and Interest - Private Label Securities (63.57%)			
	North America (30.44%)			
	Mortgage-related—Residential			
245,943	Various	0.00% - 26.31%	5/19 - 3/47	176,113
	Mortgage-related—Commercial			
33,819	Various	2.80% - 3.44%	3/49 - 5/61	11,641
	Total North America (Cost \$176,842)			187,754
	Europe (33.13%)			
	Mortgage-related—Residential			
221,257	Various	0.00% - 5.50%	6/25 - 12/61	188,043
	Mortgage-related—Commercial			
25,841	Various	0.38% - 4.20%	10/20 - 8/45	16,250
	Total Europe (Cost \$205,424)			204,293
	Total Principal and Interest - Private Label Securities (Cost \$382,266)			392,047

See Notes to Consolidated Financial Statements

6

---

Table of Contents

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

Current Value	Principal/Notional Description	Rate	Maturity	Fair Value
(In thousands)				Expressed in U.S. Dollars
Interest Only - Private Label Securities (1.20%)				
North America				
Mortgage-related—Residential				
\$32,210	Various	0.00% - 2.00%	12/30 - 9/47	\$ 4,110
Mortgage-related—Commercial				
41,707	Various	1.25% - 2.00%	3/49 - 5/61	3,282
Total Interest Only - Private Label Securities (Cost \$5,361)				
7,392				
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 \$387,818)				
399,439				
Total Mortgage-Backed Securities (Cost \$1,667,109)				
1,647,429				
Collateralized Loan Obligations (25.31%)				
North America (23.79%) (e)				
286,284	Various	0.00% - 10.09%	12/18 - 10/2118	146,713
Total North America (Cost \$151,155)				
146,713				
Europe (1.52%)				
9,993	Various	7.95%	4/24	9,374
Total Europe (Cost \$9,406)				
9,374				

Edgar Filing: Ellington Financial LLC - Form 10-Q

Total Collateralized Loan Obligations (Cost \$160,561)				156,087
Consumer Loans and Asset-backed Securities backed by Consumer Loans (33.16%) (f)				
North America (33.01%)				
Consumer (g) (h)				
224,476	Various	5.31% - 76.50%	10/18 - 9/23	203,585
Total North America (Cost \$207,837)				203,585
Europe (0.15%)				
Consumer				
3,588	Various	—%	12/30	919
Total Europe (Cost \$825)				919
Total Consumer Loans and Asset-backed Securities backed by Consumer Loans (Cost \$208,662)				204,504

See Notes to Consolidated Financial Statements

7

---

Table of Contents

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

Current Principal/Number of Properties (In thousands)	Rate	Maturity	Fair Value  Expressed in U.S. Dollars
Corporate Debt (8.71%)			
North America (6.86%)			
Basic Materials			
\$3,224 Various	3.55% - 7.63%	10/21 - 3/22	\$ 3,201
Communications			
4,241 Various	0.00% - 11.50%	4/20 - 5/22	4,522
Consumer			
13,331 Various	3.55% - 12.81%	3/20 - 3/28	13,345
Energy			
2,080 Various	4.63%	9/21	2,063
Financial			
355 Various	5.00%	8/22	363
Industrial			
11,995 Various	3.25% - 5.40%	4/21 - 1/28	11,789
Technology			
7,612 Various	3.88% - 7.32%	5/20 - 5/22	7,010
Total North America (Cost \$39,487)			42,293
Europe (1.85%)			
Consumer			
20,807 Various	—%	12/18	52
Financial			
11,782 Various	0.00% - 16.00%	10/20 - 11/22	11,373
Total Europe (Cost \$12,670)			11,425
Total Corporate Debt (Cost \$52,157)			53,718
Secured Notes (1.80%) (n)			
North America			
Mortgage-related—Residential			
17,847 Various	5.00%	11/57	11,065
Total Secured Notes (Cost \$11,766)			11,065
Mortgage Loans (84.04%) (f)			
North America			
Mortgage-related—Commercial			
(j)			
126,334 Various	3.73% - 13.61%	10/18 - 10/37	125,808
Mortgage-related—Residential			
(k) (m)			
391,816 Various	2.00% - 15.00%	2/19 - 9/58	392,460

Edgar Filing: Ellington Financial LLC - Form 10-Q

Total Mortgage Loans (Cost \$515,877)	518,268
Real Estate Owned (5.67%) (f) (l)	
North America	
Real estate-related	
5 Single-Family Houses	1,386
18 Commercial Properties	33,558
Total Real Estate Owned (Cost \$33,867)	34,944

See Notes to Consolidated Financial Statements

8

---

Table of Contents

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

Current Principal/Number of Shares (In thousands)		Rate	Maturity	Fair Value
				Expressed in U.S. Dollars
Corporate Equity Investments (6.46%)				
North America (6.46%)				
Communications				
7	Non-Exchange Traded Corporate Equity			\$ 111
Consumer				
n/a	Non-Controlling Equity Interest in Limited Liability Company (i)			6,263
36	Exchange Traded Equity			60
1,540	Non-Exchange Traded Corporate Equity			2
Diversified				
144	Non-Exchange Traded Corporate Equity			1,455
Financial				
49	Exchange Traded Equity			609
Mortgage-related—Commercial (n)				
n/a	Non-Controlling Equity Interest in Limited Liability Company			1,149
Mortgage-related—Residential (n)				
23	Non-Exchange Traded Preferred Equity Investment in Mortgage Originators			27,357
9,818	Non-Exchange Traded Common Equity Investment in Mortgage Originators			2,814
Total North America (Cost \$39,963)				39,820
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 \$39,967)				39,824
U.S. Treasury Securities (0.69%)				
North America				
Government				
\$1,995	U.S. Treasury Note	2.25%	11/27	1,868
882	U.S. Treasury Note	2.75%	7/23	874
806	U.S. Treasury Note	2.75%	2/28	786
704	U.S. Treasury Note	2.63%	8/20	702
Total U.S. Treasury Securities (Cost \$4,257)				4,230
Total Long Investments (Cost \$2,694,223)				\$ 2,670,069

See Notes to Consolidated Financial Statements





Table of Contents

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

Current Balance (In thousands)	Description	Rate	Maturity	Fair Value Expressed in U.S. Dollars
\$50,313	Repurchase Agreements (26.01%) (a) (b) (c) JP Morgan Securities LLC Collateralized by Par Value \$50,000 U.S. Treasury Note, Coupon 2.75%, Maturity Date 5/23	2.28%	10/18	\$ 50,313
42,282	Bank of America Securities Collateralized by Par Value \$42,548 U.S. Treasury Note, Coupon 2.75%, Maturity Date 7/23	2.25%	10/18	42,282
23,329	JP Morgan Securities LLC Collateralized by Par Value \$23,329 U.S. Treasury Note, Coupon 2.88% Maturity Date 8/28	2.03%	10/18	23,329
10,536	JP Morgan Securities LLC Collateralized by Par Value \$10,102 Sovereign Government Bond, Coupon 0.75%, Maturity Date 7/21	(0.55)%	12/18	10,536
9,534	JP Morgan Securities LLC Collateralized by Par Value \$9,161 Sovereign Government Bond, Coupon 2.75%, Maturity Date 4/19	(0.55)%	12/18	9,534
5,676	CILO 2016-LD1 Holdings LLC (p) Collateralized by Par Value \$9,511 Exchange-Traded Debt, Coupon 5.50%, Maturity Date 7/22	3.98%	12/18	5,676
3,020	Bank of America Securities Collateralized by Par Value \$3,094 U.S. Treasury Note, Coupon 2.75%, Maturity Date 2/28	2.30%	10/18	3,020
2,732	Barclays Capital Inc Collateralized by Par Value \$2,495 Exchange-Traded Corporate Debt, Coupon 5.63%, Maturity Date 10/23	(0.25)%	10/18	2,732
2,029	Societe Generale Collateralized by Par Value \$1,850 Exchange-Traded Corporate Debt, Coupon 7.50%, Maturity Date 4/24	(1.15)%	10/18	2,029
2,025	RBC Capital Markets LLC Collateralized by Par Value \$1,985 Exchange-Traded Corporate Debt, Coupon 5.13%, Maturity Date 11/23	1.60%	10/18	2,025
1,358	Bank of America Securities	2.30%	10/18	1,358

Collateralized by Par Value \$1,355  
U.S. Treasury Note, Coupon 2.75%,  
Maturity Date 4/23

See Notes to Consolidated Financial Statements  
10

---

Table of Contents

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

Current (In thousands) (continued)	Description	Rate	Maturity	Fair Value Expressed in U.S. Dollars
\$1,342	Barclays Capital Inc Collateralized by Par Value \$1,295 Exchange-Traded Corporate Debt, Coupon 5.88%, Maturity Date 10/20	—%	10/18	\$ 1,342
1,139	CS First Boston Collateralized by Par Value \$1,110 Exchange-Traded Corporate Debt, Coupon 8.00%, Maturity Date 6/27	(2.00)%	10/18	1,139
788	RBC Capital Markets LLC Collateralized by Par Value \$745 Exchange-Traded Corporate Debt, Coupon 5.13%, Maturity Date 9/24	1.75%	10/18	788
741	Bank of America Securities Collateralized by Par Value \$770 U.S. Treasury Bond, Coupon 3.00%, Maturity Date 2/48	2.30%	10/18	741
675	Bank of America Securities Collateralized by Par Value \$680 U.S. Treasury Note, Coupon 2.75%, Maturity Date 8/23	2.15%	10/18	675
535	Barclays Capital Inc Collateralized by Par Value \$580 Exchange-Traded Corporate Debt, Coupon 4.50%, Maturity Date 4/22	(2.00)%	10/18	535
525	RBC Capital Markets LLC Collateralized by Par Value \$500 Exchange-Traded Corporate Debt, Coupon 5.75%, Maturity Date 10/22	1.80%	10/18	525
470	RBC Capital Markets LLC Collateralized by Par Value \$470 Exchange-Traded Corporate Debt, Coupon 4.50%, Maturity Date 4/24	1.85%	10/18	470
442	Bank of America Securities Collateralized by Par Value \$448 U.S. Treasury Note, Coupon 2.75%, Maturity Date 2/25	2.30%	10/18	442
252	Bank of America Securities Collateralized by Par Value \$275 U.S. Treasury Bond, Coupon 2.75%, Maturity Date 8/47	2.30%	10/18	252
243	Barclays Capital Inc	(1.75)%	10/18	243

Collateralized by Par Value \$250  
Exchange-Traded Corporate Debt, Coupon 4.50%,  
Maturity Date 4/22

See Notes to Consolidated Financial Statements

11

---

Table of Contents

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

Current Balance	Description	Rate	Maturity	Fair Value
(In thousands)				Expressed in U.S. Dollars
\$239	RBC Capital Markets LLC Collateralized by Par Value \$255 Exchange-Traded Corporate Debt, Coupon 4.70%, Maturity Date 4/23	1.80%	10/18	\$ 239
197	RBC Capital Markets LLC Collateralized by Par Value \$205 Exchange-Traded Corporate Debt, Coupon 8.25%, Maturity Date 6/23	1.25%	10/18	197
	Total Repurchase Agreements (Cost \$160,468)			\$ 160,422
	Investments Sold Short (-112.76%) (a) (b)			
	TBA - Fixed Rate Agency Securities Sold Short (-91.15%) (q)			
	North America			
	Mortgage-related—Residential			
\$(127,460)	Government National Mortgage Association (30 year)	3.50%	10/18	\$(126,713)
(92,883 )	Government National Mortgage Association (30 year)	4.00%	10/18	(94,440 )
(84,000 )	Federal Home Loan Mortgage Corporation (30 year)	4.00%	11/18	(84,715 )
(76,912 )	Federal National Mortgage Association (30 year)	3.50%	10/18	(75,689 )
(32,000 )	Federal National Mortgage Association (30 year)	5.00%	11/18	(33,548 )
(28,320 )	Federal National Mortgage Association (15 year)	3.50%	10/18	(28,465 )
(25,797 )	Federal Home Loan Mortgage Corporation (30 year)	4.00%	10/18	(26,050 )
(25,490 )	Federal National Mortgage Association (15 year)	3.00%	10/18	(25,176 )
(23,631 )	Federal Home Loan Mortgage Corporation (30 year)	4.50%	10/18	(24,388 )
(17,457 )	Federal National Mortgage Association (30 year)	3.00%	10/18	(16,703 )
(13,610 )	Federal National Mortgage Association (30 year)	4.50%	10/18	(14,040 )
(6,860 )	Federal National Mortgage Association (30 year)	5.50%	10/18	(7,325 )
(4,617 )	Federal National Mortgage Association (30 year)	5.00%	10/18	(4,846 )
	Total TBA - Fixed Rate Agency Securities Sold Short (Proceeds -\$564,232)			(562,098 )
	Government Debt Sold Short (-11.74%)			
	North America (-8.56%)			
	Government			
(36,380 )	U.S. Treasury Note	2.88%	9/23	(36,259 )
(9,414 )	U.S. Treasury Note	2.88%	8/28	(9,271 )
(2,300 )	U.S. Treasury Note	2.75%	5/23	(2,282 )
(1,355 )	U.S. Treasury Note	2.75%	4/23	(1,344 )
(1,004 )	U.S. Treasury Note	2.88%	5/28	(989 )
(770 )	U.S. Treasury Bond	3.00%	2/48	(742 )
(680 )	U.S. Treasury Note	2.75%	8/23	(674 )
(562 )	U.S. Treasury Note	2.63%	6/23	(554 )
(448 )	U.S. Treasury Note	2.75%	2/25	(442 )
(275 )	U.S. Treasury Bond	2.75%	8/47	(252 )

Edgar Filing: Ellington Financial LLC - Form 10-Q

Total North America (Proceeds -\$52,884)

(52,809 )

See Notes to Consolidated Financial Statements

12

---

Table of Contents

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

Current Principal/Number of Shares	Description	Rate	Maturity	Fair Value
(In thousands) (continued)				Expressed in U.S. Dollars
	Europe (-3.18%)			
	Government			
\$(19,263)	European Sovereign Bond	0.75% - 2.75%	4/19 - 7/21	\$ (19,633 )
	Total Europe (Proceeds -\$19,605)			(19,633 )
	Total Government Debt Sold Short (Proceeds -\$72,489)			(72,442 )
	Common Stock Sold Short (-3.80%)			
	North America			
	Financial			
(649 )	Exchange Traded Equity			(23,407 )
	Total Common Stock Sold Short (Proceeds -\$23,855)			(23,407 )
	Corporate Debt Sold Short (-6.07%)			
	North America			
	Basic Materials			
\$(2,080 )	Various	3.45%	6/27	(1,982 )
	Communications			
(9,275 )	Various	3.40% - 7.50%	9/23 - 3/27	(9,327 )
	Consumer			
(13,972 )	Various	4.50% - 5.88%	10/20 - 11/24	(14,041 )
	Energy			
(3,810 )	Various	4.50% - 8.25%	4/22 - 6/27	(3,672 )
	Financial			
(2,785 )	Various	3.75% - 5.13%	9/24 - 6/27	(2,854 )
	Industrial			
(3,670 )	Various	3.55% - 5.90%	10/24 - 2/27	(3,677 )
	Technology			
(905 )	Various	4.70%	4/23	(825 )
	Utilities			
(940 )	Various	7.25%	5/26	(1,024 )
	Total Corporate Debt Sold Short (Proceeds -\$37,110)			(37,402 )
	Total Investments Sold Short (Proceeds -\$697,686)			\$ (695,349 )

See Notes to Consolidated Financial Statements



Table of Contents

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

	Primary Risk Exposure	Notional Value	Range of Expiration Dates	Fair Value
(In thousands)				Expressed in U.S.Dollars
Financial Derivatives—Assets (5.08%) (a) (b)				
Swaps (4.78%)				
Long Swaps:				
Credit Default Swaps on Corporate Bond Indices (r)	Credit	\$ 47,501	6/19 - 6/23	\$ 1,596
Credit Default Swaps on Asset-Backed Indices (r)	Credit	920	12/37 - 11/59	10
Interest Rate Swaps (s)	Interest Rates	4,282	11/18 - 1/24	6
North America				
Credit Default Swaps on Corporate Bonds (r)				
Basic Materials	Credit	3,913	12/22 - 12/23	115
Communications	Credit	8,665	12/20 - 12/23	106
Consumer	Credit	19,846	6/20 - 12/23	2,490
Energy	Credit	6,230	6/22 - 12/23	201
Financial	Credit	2,505	12/23	361
Industrial	Credit	1,290	12/23	38
Utilities	Credit	1,175	6/23	197
Total Credit Default Swaps on Corporate Bonds				3,508
Short Swaps:				
Credit Default Swaps on Asset-Backed Indices (t)	Credit	(18,668	) 5/46 - 11/59	3,053
Interest Rate Swaps (u)	Interest Rates	(723,541	) 10/18 - 12/45	17,908
Interest Rate Basis Swaps (aa)	Interest Rates	(12,900	) 6/19	4
North America				
Credit Default Swaps on Asset-Backed Securities (t)				
Mortgage-related—Residential	Credit	(3,247	) 6/35 - 12/35	1,515
Credit Default Swaps on Corporate Bonds (t)				
Communications	Credit	(6,870	) 6/19 - 6/22	1,025
Consumer	Credit	(7,665	) 12/18 - 12/22	201
Energy	Credit	(5,855	) 3/19 - 9/21	23

Edgar Filing: Ellington Financial LLC - Form 10-Q

Industrial	Credit	(4,660	)	6/23	267
Technology	Credit	(5,590	)	12/21 - 6/22	382
Total Credit Default Swaps on Corporate Bonds					1,898
Total Return Swaps (v)					
Financial	Equity Market	(18,964	)	7/19 - 10/19	2
Total Total Return Swaps					2
Total Swaps (Net cost \$20,892)					29,500
Options (0.00%)					
Purchased Options:					
Interest Rate Caps (x)	Interest Rates	90,253		10/18 - 5/19	1
Total Options (Cost \$3)					1

See Notes to Consolidated Financial Statements

14

---

Table of Contents

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

	Primary Risk Exposure	Notional Value	Range of Expiration Dates	Fair Value	
(In thousands)					Expressed in U.S.Dollars
Futures (0.25%)					
Short Futures:					
U.S. Treasury Note Futures (y)	Interest Rates	\$ (90,900	) 12/18	\$ 1,333	
Eurodollar Futures (ad)	Interest Rates	(98,000	) 3/19 - 6/20	23	
Currency Futures (z)	Currency	(48,710	) 12/18	184	
Total Futures				1,540	
Forwards (0.05%)					
Short Forwards:					
Currency Forwards (ab)	Currency	(37,272	) 12/18	297	
Total Forwards				297	
Total Financial Derivatives—Assets (Net cost \$20,895)				\$ 31,338	
Financial Derivatives—Liabilities (-4.42%) (a) (b)					
Swaps (-4.41%)					
Long Swaps:					
Credit Default Swaps on Asset-Backed Indices (r)	Credit	\$ 6,486	3/49 - 11/60	\$ (718	)
Interest Rate Swaps (s)	Interest Rates	315,174	1/19 - 7/28	(7,489	)
North America					
Credit Default Swaps on Corporate Bonds (r)					
Communications	Credit	12,328	12/21 - 6/23	(1,191	)
Consumer	Credit	7,305	12/18 - 12/23	(435	)
Energy	Credit	5,874	6/20 - 6/23	(696	)
Industrial	Credit	5,020	6/23	(287	)
Technology	Credit	1,560	12/22 - 6/23	(178	)
Total Credit Default Swaps on Corporate Bonds				(2,787	)
Recovery Swaps (w)					
Consumer	Credit	2,600	6/19	(8	)
Total Recovery Swaps				(8	)

See Notes to Consolidated Financial Statements

Table of Contents

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

	Primary Risk Exposure	Notional Value	Range of Expiration Dates	Fair Value	Expressed in U.S.Dollars
(In thousands)					
Short Swaps:					
Interest Rate Swaps (u)	Interest Rates	\$ (58,000 )	4/20 - 9/23	\$ (205 )	
Credit Default Swaps on Corporate Bond Indices (t)	Credit	(235,784 )	6/19 - 12/23	(9,797 )	
Total Return Swaps (ac)	Credit	(56,140 )	12/18	(1,740 )	
North America					
Credit Default Swaps on Corporate Bonds (t)					
Basic Materials	Credit	(12,029 )	6/19 - 3/22	(535 )	
Communications	Credit	(20,047 )	12/18 - 12/22	(416 )	
Consumer	Credit	(49,120 )	12/18 - 12/23	(2,670 )	
Energy	Credit	(15,265 )	12/18 - 6/23	(463 )	
Financial	Credit	(355 )	9/22	(56 )	
Industrial	Credit	(14,215 )	6/21 - 12/23	(256 )	
Technology	Credit	(4,665 )	3/19 - 6/20	(27 )	
Total Credit Default Swaps on Corporate Bonds				(4,423 )	
Total Swaps (Net proceeds -\$16,294)				(27,167 )	
Futures (-0.00%)					
Short Futures:					
Eurodollar Futures (ad)	Interest Rates	(35,000 )	12/18	(1 )	
Total Futures				(1 )	
Forwards (-0.01%)					
Short Forwards:					
Currency Forwards (ab)	Currency	(6,464 )	12/18	(58 )	
Total Forwards				(58 )	
Total Financial Derivatives–Liabilities (Net proceeds -\$16,294)				\$ (27,226 )	

See Notes to Consolidated Financial Statements

Table of Contents

ELLINGTON FINANCIAL LLC  
CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS  
AT SEPTEMBER 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.  
At September 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 82.74%, 41.87%, and 77.76% of Total Equity, respectively.
- (c) Private trust 100% backed by interest in Government National Mortgage Association collateralized mortgage obligation certificates.
- (d) Includes investment in collateralized loan obligation notes in the amount of \$61.6 million that were issued and are managed by related parties of the Company. See Note 9 to the Notes to Consolidated Financial Statements.
- (e) 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.  
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 September 30, 2018 loans for which the Company has beneficial interests in the net cash flows, totaled \$19.8 million. See Note 9 to the Notes to Consolidated Financial Statements.
- (f) 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 September 30, 2018 loans held in the related party trust for which the Company has participating interests in the cash flows, totaled \$180.7 million. See Note 9 to the Notes to Consolidated Financial Statements.
- (g) 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.
- (h) Includes non-performing commercial mortgage loans in the amount of \$3.5 million whereby principal and/or interest is past due and a maturity date is not applicable.
- (i) As of September 30, 2018, the Company had residential mortgage loans that were in the process of foreclosure with a fair value of \$9.3 million.
- (j) Number of properties not shown in thousands, represents actual number of properties owned.
- (k) Includes \$95.0 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.
- (l) Represents the Company's investment in a related party. See Note 9 to the Notes to Consolidated Financial Statements.
- (m) In general, securities received pursuant to repurchase agreements were delivered to counterparties in short sale transactions.  
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.
- (n) At September 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 33.37%, 21.92%, and 35.86% of Total Equity, respectively.
- (o) For long credit default swaps, the Company sold protection.
- (p) For long interest rate swap contracts, the Company pays a floating rate and receives a fixed rate.
- (q) For short credit default swaps, the Company purchased protection.

Edgar Filing: Ellington Financial LLC - Form 10-Q

- (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 September 30, 2018, a total of 909 contracts were held.
- (z) Notional value represents the total face amount of foreign currency underlying all contracts held; as of September 30, 2018, 411 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.
- (ad) Every \$1,000,000 in notional value represents one contract.

See Notes to Consolidated Financial Statements

17

---

Table of Contents

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

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. (ae) 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	202.37 %
Aaa/AAA/AAA	0.69 %
Aa/AA/AA	0.90 %
A/A/A	5.98 %
Baa/BBB/BBB	6.06 %
Ba/BB/BB or below	61.53 %
Unrated	155.45 %

See Notes to Consolidated Financial Statements

18

---

Table of Contents

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

Current Principal/Number of Shares (In thousands) Cash Equivalents—Money Market Funds (4.27%) (a) (b) North America Funds	Description	Rate	Maturity	Fair Value
				Expressed in U.S. Dollars
\$26,500	Various	1.17%		\$ 26,500
	Total Cash			
	Equivalents—Money			\$ 26,500
	Market Funds (Cost			\$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



Edgar Filing: Ellington Financial LLC - Form 10-Q

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

See Notes to Consolidated Financial Statements

19

---

Table of Contents

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

Current Principal/Notional Value Description (In thousands) (continued)	Rate	Maturity	Fair Value  Expressed in U.S. Dollars
\$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

See Notes to Consolidated Financial Statements

20

---

Table of Contents

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

Current Principal /Notional Description Value (In thousands)	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			

Edgar Filing: Ellington Financial LLC - Form 10-Q

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

See Notes to Consolidated Financial Statements

21

---

Table of Contents

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

Current Principal /Notional Description Value (In thousands)	Rate	Maturity	Fair Value
			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)			

Edgar Filing: Ellington Financial LLC - Form 10-Q

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

See Notes to Consolidated Financial Statements

22

---

Table of Contents

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

Current Principal/Number of Description Properties (In thousands)	Rate	Maturity	Fair Value  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

See Notes to Consolidated Financial Statements

23

---

Table of Contents

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

Number Description Shares (In thousands)	Rate Maturity	Fair Value
Corporate Equity Investments (6.03%) North America (6.03%) Asset-Backed Securities		Expressed in U.S. Dollars
<del>1</del> Non-Controlling Equity Interest in Limited Liability Company (i) Communications		\$ 5,033
<del>7</del> Non-Exchange Traded Corporate Equity Consumer		557
<del>1</del> Non-Controlling Equity Interest in Limited Liability Company (i) <del>1,540</del> Exchange Traded Corporate Equity Diversified		5,693 5
<del>1,561</del> Non-Exchange Traded Corporate Equity Mortgage-related—Residential (n)		2,585
<del>2</del> Non-Exchange Traded Preferred Equity Investment in Mortgage Originators		20,774
<del>9,818</del> Exchange Traded Common Equity Investment in Mortgage Originators		2,814
Total North America (Cost \$41,559)		37,461
Europe (0.00%) Consumer		
<del>1,561</del> Non-Exchange Traded Corporate Equity Financial		—
<del>1</del> 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

See Notes to Consolidated Financial Statements

24

Table of Contents

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

Current Balance	Description	Rate	Maturity	Fair Value Expressed in U.S. Dollars
	Repurchase Agreements (25.11%) (a) (b) (c)			
\$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

Edgar Filing: Ellington Financial LLC - Form 10-Q

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

See Notes to Consolidated Financial Statements  
25

---

Table of Contents

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

Current (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

See Notes to Consolidated Financial Statements

26

---

Table of Contents

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

Current (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

See Notes to Consolidated Financial Statements

27

---



Table of Contents

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 )

See Notes to Consolidated Financial Statements

Table of Contents

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 )

See Notes to Consolidated Financial Statements

Table of Contents

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

	Primary Risk Exposure	Notional Value	Range of Expiration Dates	Fair Value
(In thousands)				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

See Notes to Consolidated Financial Statements

30

---

Table of Contents

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

	Primary Risk Exposure	Notional Value	Range of Expiration Dates	Fair Value	
(In thousands)					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)	)

See Notes to Consolidated Financial Statements

31

Table of Contents

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

	Primary Risk Exposure	Notional Value	Range of Expiration Dates	Fair Value	
(In thousands)					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	)

See Notes to Consolidated Financial Statements

32

Table of Contents

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

- (a) See Note 2 and Note 3 in Notes to Consolidated Financial Statements.
- (b) Classification percentages are based on Total Equity.  
At December 31, 2017, the Company's long investments guaranteed by the Federal National Mortgage Association, (c) 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.  
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 (g) 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.  
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 (h) 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.  
Represents the Company's beneficial interest in an entity, which is co-owned by an affiliate of Ellington (i) 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.  
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 (p) 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.  
At December 31, 2017, the Company's short investments guaranteed by the Federal National Mortgage Association, (q) 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.

Edgar Filing: Ellington Financial LLC - Form 10-Q

- (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. 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



Table of Contents

ELLINGTON FINANCIAL LLC  
CONSOLIDATED STATEMENT OF OPERATIONS  
(UNAUDITED)

	Three-Month Period Ended September 30, 2018		Nine-Month Period Ended September 30, 2017	
	2018	2017	2018	2017
(In thousands except per share amounts)				
Expressed in U.S. Dollars				
<b>INVESTMENT INCOME</b>				
Interest income <sup>(1)</sup>	\$35,300	\$21,145	\$95,333	\$65,819
Other income	1,046	1,232	2,857	3,043
Total investment income	36,346	22,377	98,190	68,862
<b>EXPENSES</b>				
Base management fee to affiliate (Net of fee rebates of \$423, \$172, \$950, and \$172, respectively) <sup>(2)</sup>	1,830	2,161	5,829	6,942
Incentive fee to affiliate	424	—	715	—
Interest expense <sup>(1)</sup>	15,678	8,166	40,624	21,794
Other investment related expenses <sup>(3)</sup>				
Servicing expense	2,200	991	5,430	2,899
Other	2,184	917	5,677	2,588
Professional fees	820	633	2,324	2,012
Administration fees	186	175	549	537
Compensation expense	639	673	1,806	1,703
Insurance expense	120	120	366	378
Directors' fees and expenses	66	66	205	207
Share-based long term incentive plan unit expense	103	97	296	285
Other expenses	418	476	1,458	1,408
Total expenses	24,668	14,475	65,279	40,753
NET INVESTMENT INCOME	11,678	7,902	32,911	28,109
<b>NET REALIZED AND CHANGE IN NET UNREALIZED GAIN (LOSS) ON INVESTMENTS, FINANCIAL DERIVATIVES, AND FOREIGN CURRENCY TRANSACTIONS/TRANSLATION</b>				
Net realized gain (loss) on:				
Investments	8,551	1,087	20,747	2,372
Financial derivatives, excluding currency hedges	479	(595)	(2,251)	(6,222)
Financial derivatives—currency hedges	297	(4,013)	1,881	(7,357)
Foreign currency transactions	775	4,726	1,433	6,234
	10,102	1,205	21,810	(4,973)
Change in net unrealized gain (loss) on:				
Investments	(13,372)	(1,750)	(12,767)	6,837
Other secured borrowings	(358)	—	840	—
Financial derivatives, excluding currency hedges	173	(305)	9,922	(4,081)
Financial derivatives—currency hedges	528	2,026	1,404	1,162
Foreign currency translation	(1,277)	(2,483)	(3,139)	712
	(14,306)	(2,512)	(3,740)	4,630
NET REALIZED AND CHANGE IN NET UNREALIZED GAIN (LOSS) ON INVESTMENTS, OTHER SECURED BORROWINGS, FINANCIAL DERIVATIVES, AND FOREIGN CURRENCY	(4,204)	(1,307)	18,070	(343)

TRANSACTIONS/TRANSLATION

See Notes to Consolidated Financial Statements

34

---

Table of Contents

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

	Three-Month Period Ended September 30,		Nine-Month Period Ended September 30,	
	2018	2017	2018	2017
	Expressed in U.S. Dollars			
NET INCREASE (DECREASE) IN EQUITY RESULTING FROM OPERATIONS	7,474	6,595	50,981	27,766
LESS: NET INCREASE (DECREASE) IN EQUITY RESULTING FROM OPERATIONS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	813	400	2,089	1,229
NET INCREASE (DECREASE) IN SHAREHOLDERS' EQUITY RESULTING FROM OPERATIONS	\$6,661	\$6,195	\$48,892	\$26,537
NET INCREASE (DECREASE) IN SHAREHOLDERS' EQUITY RESULTING FROM OPERATIONS PER SHARE:				
Basic and Diluted	\$0.22	\$0.19	\$1.58	\$0.81

Includes interest income and interest expense of a consolidated securitization trust of \$1.3 million and \$0.7 million, respectively, for the three-month period ended September 30, 2018. Includes interest income and interest expense of a consolidated securitization trust of \$3.9 million and \$2.4 million, respectively, for the nine-month period ended September 30, 2018. See Note 6 for further details on the Company's consolidated securitization trust.

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

(2) Conformed to current period presentation.

See Notes to Consolidated Financial Statements

35

---

Table of Contents

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

	Nine-Month Period Ended September 30, 2018			Nine-Month Period Ended September 30, 2017		
	Shareholders' Equity	Non-controlling Interest	Total Equity	Shareholders' Equity	Non-controlling Interest	Total Equity
(In thousands)	Expressed in U.S. Dollars					
<b>BEGINNING EQUITY</b> (12/31/2017 and 12/31/2016, respectively)	\$600,099	\$ 20,862	\$620,961	\$637,661	\$ 7,116	\$644,777
<b>CHANGE IN EQUITY RESULTING FROM OPERATIONS</b>						
Net investment income			32,911			28,109
Net realized gain (loss) on investments, financial derivatives, and foreign currency transactions			21,810			(4,973 )
Change in net unrealized gain (loss) on investments, other secured borrowings, financial derivatives, and foreign currency translation			(3,740 )			4,630
Net increase (decrease) in equity resulting from operations	48,892	2,089	50,981	26,537	1,229	27,766
<b>CHANGE IN EQUITY RESULTING FROM TRANSACTIONS</b>						
Shares issued in connection with incentive fee payment	29		29	—		—
Contributions from non-controlling interests		11,900	11,900		14,201	14,201
Dividends <sup>(1)</sup>	(37,891 )	(261 )	(38,152 )	(44,050 )	(286 )	(44,336 )
Distributions to non-controlling interests		(11,744 )	(11,744 )		(8,178 )	(8,178 )
Adjustment to non-controlling interest	(33 )	33	—	(6 )	6	—
Shares repurchased	(17,593 )		(17,593 )	(4,791 )		(4,791 )
Share-based long term incentive plan unit awards	294	2	296	284	1	285
Net increase (decrease) in equity from transactions	(55,194 )	(70 )	(55,264 )	(48,563 )	5,744	(42,819 )
Net increase (decrease) in equity	(6,302 )	2,019	(4,283 )	(22,026 )	6,973	(15,053 )
<b>ENDING EQUITY</b> (9/30/2018 and 9/30/2017, respectively)	\$593,797	\$ 22,881	\$616,678	\$615,635	\$ 14,089	\$629,724

For the three-month periods ended September 30, 2018 and 2017, dividends totaling \$0.41 and \$0.45, respectively, per common share and convertible unit outstanding, were declared. For the nine-month periods ended September 30, 2018 and 2017, dividends totaling \$1.23 and \$1.35, respectively, per common share and convertible unit outstanding, were declared.

See Notes to Consolidated Financial Statements



Table of Contents

ELLINGTON FINANCIAL LLC  
CONSOLIDATED STATEMENT OF CASH FLOWS  
(UNAUDITED)

	Nine-Month Period Ended September 30, 2018      2017	
(In thousands)	Expressed in U.S. Dollars	
INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH: NET INCREASE (DECREASE) IN EQUITY RESULTING FROM OPERATIONS	\$50,981	\$ 27,766
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	(19,335 )	13,018
Change in net unrealized (gain) loss on investments, other secured borrowings, financial derivatives, and foreign currency translation	7,263	(7,472 )
Amortization of premiums and accretion of discounts (net)	35,130	23,010
Purchase of investments	(2,626,320)	(1,847,795)
Proceeds from disposition of investments	1,558,821	1,378,115
Proceeds from principal payments of investments	383,847	214,636
Proceeds from investments sold short	1,926,781	1,456,930
Repurchase of investments sold short	(1,858,064)	(1,382,642)
Payments on financial derivatives	(78,447 )	(76,667 )
Proceeds from financial derivatives	77,314	79,207
Amortization of deferred debt issuance costs	198	30
Shares issued in connection with incentive fee payment	29	—
Share-based long term incentive plan unit expense	296	285
Interest income related to consolidated securitization trust <sup>(1)</sup>	(2,493 )	—
Interest expense related to consolidated securitization trust <sup>(1)</sup>	2,493	—
Repurchase agreements	(4,473 )	(8,251 )
(Increase) decrease in assets <sup>(2)</sup> :		
Receivable for securities sold and financial derivatives	(194,952)	(53,941 )
Due from brokers	56,489	(14,522 )
Interest and principal receivable	(8,947 )	(3,302 )
Other assets	38,563	190
Increase (decrease) in liabilities:		
Due to brokers	2,830	(9,167 )
Payable for securities purchased and financial derivatives	228,105	84,549
Accounts payable and accrued expenses	1,452	515
Incentive fee payable to affiliate	424	—
Other liabilities	700	181
Interest and dividends payable	547	1,408
Base management fee payable to affiliate	(283 )	(255 )
Net cash provided by (used in) operating activities <sup>(2)</sup>	(421,051)	(124,174 )

See Notes to Consolidated Financial Statements



Table of Contents

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

	Nine-Month Period Ended September 30, 2018      2017 Expressed in U.S. Dollars	
(In thousands)		
Cash flows provided by (used in) financing activities:		
Contributions from non-controlling interests	\$ 11,900	\$ 14,201
Shares repurchased	(17,593 )	(4,791 )
Dividends paid	(38,152 )	(44,336 )
Distributions to non-controlling interests	(11,744 )	(8,178 )
Proceeds from issuance of Other secured borrowings	83,380	94,878
Principal payments on Other secured borrowings	(27,099 )	(21,020 )
Proceeds from issuance of senior notes	—	86,000
Debt issuance costs paid	—	(890 )
Borrowings under reverse repurchase agreements	6,771,029	8,663,470
Repayments of reverse repurchase agreements	(6,344,305)	(8,667,241)
Net cash provided by (used in) financing activities	427,416	112,093
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH <sup>(2)</sup>	6,365	(12,081 )
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, BEGINNING OF PERIOD <sup>(2)</sup>	47,658	123,929
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, END OF PERIOD <sup>(2)</sup>	\$ 54,023	\$ 111,848
Supplemental disclosure of cash flow information:		
Interest paid	\$ 40,097	\$ 19,683
Shares issued in connection with incentive fee payment	29	—
Share-based long term incentive plan unit awards (non-cash)	296	285
Aggregate TBA trade activity (buys + sells) (non-cash)	21,475,863	17,198,330
Purchase of investments (non-cash)	(15,533 )	(25,318 )
Proceeds from principal payments of investments (non-cash)	34,697	6,815
Proceeds from the disposition of investments (non-cash)	15,533	26,800
Proceeds from issuance of Other secured borrowings (non-cash)	—	17,175
Principal payments on Other secured borrowings (non-cash)	—	(25,473 )
Principal payments on Other secured borrowings, at fair value (non-cash)	(34,697 )	—

(1) Related to non-qualified mortgage securitization transaction. See Note 6 for further details.

(2) Conformed to current period presentation.

See Notes to Consolidated Financial Statements



Table of Contents

ELLINGTON FINANCIAL LLC  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
September 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

Table of Contents

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.

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.

Table of Contents

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 trust 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

Table of Contents

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



Table of Contents

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

Table of Contents

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.

Table of Contents

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.

Table of Contents

(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 certain of its directors as well as the Manager. Costs associated with LTIP Units issued to dedicated or partially dedicated personnel, or to its 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 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 is 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



Table of Contents

on a flow-through basis. In addition, certain subsidiaries of the Company have elected to be 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, or 2015 (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 August 2018, the Financial Accounting Standards Board, or "FASB," issued ASU 2018-13, Fair Value Measurement—Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement ("ASU 2018-13"). This amends ASC 820, Fair Value Measurement, to remove or modify various current disclosure requirements related to fair value measurement. Additionally ASU 2018-13 requires certain additional disclosures around fair value measurement. ASU 2018-13 is effective for annual periods beginning after December 15, 2019 and interim periods within those years, with early adoption permitted. Entities are permitted to early adopt any removed or modified disclosures and delay adoption of the additional disclosures until their effective date. The Company has elected to early adopt the removal and modification of various disclosure requirements in accordance with ASU 2018-13; early adoption has not had a material impact on the Company's consolidated financial statements. The Company has elected not to early adopt the additional disclosure requirements. The adoption of additional disclosures, as required under ASU 2018-13, is not expected to have a material impact on the Company's consolidated financial statements.

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.

Table of Contents

## 3. Valuation

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

Description	Level 1 (In thousands)	Level 2	Level 3	Total
<b>Assets:</b>				
Cash equivalents	\$8,502	\$—	\$—	\$8,502
Investments, at fair value-				
Agency residential mortgage-backed securities	\$—	\$1,239,211	\$8,779	\$1,247,990
U.S. Treasury securities	—	4,230	—	4,230
Private label residential mortgage-backed securities	—	246,992	121,274	368,266
Private label commercial mortgage-backed securities	—	30,190	983	31,173
Commercial mortgage loans	—	—	125,808	125,808
Residential mortgage loans	—	—	392,460	392,460
Collateralized loan obligations	—	127,076	29,011	156,087
Consumer loans and asset-backed securities backed by consumer loans	—	—	204,504	204,504
Corporate debt	—	46,037	7,681	53,718
Secured notes	—	—	11,065	11,065
Real estate owned	—	—	34,944	34,944
Corporate equity investments	669	—	39,155	39,824
Total investments, at fair value	669	1,693,736	975,664	2,670,069
Financial derivatives—assets, at fair value-				
Credit default swaps on asset-backed securities	—	—	1,515	1,515
Credit default swaps on corporate bond indices	—	1,596	—	1,596
Credit default swaps on corporate bonds	—	5,406	—	5,406
Credit default swaps on asset-backed indices	—	3,063	—	3,063
Total return swaps	—	2	—	2
Interest rate swaps	—	17,918	—	17,918
Options	—	1	—	1
Futures	1,540	—	—	1,540
Forwards	—	297	—	297
Total financial derivatives—assets, at fair value	1,540	28,283	1,515	31,338
Repurchase agreements, at fair value	—	160,422	—	160,422
Total investments, financial derivatives—assets, and repurchase agreements, at fair value	\$2,209	\$1,882,441	\$977,179	\$2,861,829
<b>Liabilities:</b>				
Investments sold short, at fair value-				
Agency residential mortgage-backed securities	\$—	\$(562,098)	\$—	\$(562,098)
Government debt	—	(72,442)	—	(72,442)
Corporate debt	—	(37,402)	—	(37,402)
Common stock	(23,407)	—	—	(23,407)
Total investments sold short, at fair value	(23,407)	(671,942)	—	(695,349)

Table of Contents

Description (continued)	Level 1 (In thousands)	Level 2	Level 3	Total
Financial derivatives—liabilities, at fair value-				
Credit default swaps on corporate bond indices	\$—	\$(9,797 )	\$—	\$(9,797 )
Credit default swaps on corporate bonds	—	(7,218 )	—	(7,218 )
Credit default swaps on asset-backed indices	—	(718 )	—	(718 )
Interest rate swaps	—	(7,694 )	—	(7,694 )
Total return swaps	—	(1,740 )	—	(1,740 )
Futures	(1 )	—	—	(1 )
Forwards	—	(58 )	—	(58 )
Total financial derivatives—liabilities, at fair value	(1 )	(27,225 )	—	(27,226 )
Other secured borrowings, at fair value	—	—	(89,569 )	(89,569 )
Total investments sold short, financial derivatives—liabilities, and other secured borrowings, at fair value	\$(23,408)	\$(699,167)	\$(89,569)	\$(812,144)

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

Description	Fair Value (In thousands)	Valuation Technique	Unobservable Input	Range Min	Max	Weighted Average
Private label residential mortgage-backed securities	\$ 63,805	Market Quotes	Non Binding Third-Party Valuation	\$3.00	\$175.71	\$76.13
Collateralized loan obligations	22,934	Market Quotes	Non Binding Third-Party Valuation	61.00	96.25	68.09
Corporate debt, non-exchange traded corporate equity, and secured notes	14,981	Market Quotes	Non Binding Third-Party Valuation	9.88	91.00	61.00
Private label commercial mortgage-backed securities	539	Market Quotes	Non Binding Third-Party Valuation	5.11	6.16	5.74
Agency interest only residential mortgage-backed securities	2,510	Market Quotes	Non Binding Third-Party Valuation	2.10	16.68	15.91
Private label residential mortgage-backed securities	57,469	Discounted Cash Flows	Yield	3.0 %	53.9 %	9.5 %
			Projected Collateral Prepayments	18.3 %	90.2 %	56.4 %
			Projected Collateral Losses	0.0 %	50.2 %	8.4 %
			Projected Collateral Recoveries	1.7 %	11.9 %	8.0 %
			Projected Collateral Scheduled Amortization	7.7 %	54.9 %	27.2 %
						100.0 %
Private label commercial mortgage-backed securities	444	Discounted Cash Flows	Yield	9.0 %	26.0 %	18.5 %
			Projected Collateral Losses	1.6 %	1.6 %	1.6 %
			Projected Collateral Recoveries	1.5 %	1.5 %	1.5 %

Edgar Filing: Ellington Financial LLC - Form 10-Q

			Projected Collateral						
			Scheduled	96.9	%	96.9	%	96.9	%
			Amortization						
								100.0	%
Corporate debt and non-exchange	5,337	Discounted	Yield	17.1	%	17.1	%	17.1	%
traded corporate equity		Cash Flows							

49

---

Table of Contents

(continued) Description	Fair Value (In thousands)	Valuation Technique	Unobservable Input	Range MinMax	Weighted Average	
Collateralized loan obligations	\$ 6,077	Discounted Cash Flows	Yield	<del>8%</del> 7.6	<del>7.7</del>	
			Projected Collateral Prepayments	<del>90.2%</del> 94.1	<del>91.5</del>	
			Projected Collateral Losses	<del>0%</del> 6.4	<del>4.7</del>	
			Projected Collateral Recoveries	<del>2%</del> 3.3	<del>3.0</del>	
			Projected Collateral Scheduled Amortization	<del>—%</del> 8	<del>0.8</del>	
					<del>100.0</del>	
Consumer loans and asset-backed securities backed by consumer loans	204,504	Discounted Cash Flows	Yield	7.0	12.0	8.4
			Projected Collateral Prepayments	0.0	4.4	3.9
			Projected Collateral Losses	3.5	6.0	6.1
			Projected Collateral Scheduled Amortization	3.6	5.2	3.3
					100.0	
Performing commercial mortgage loans	122,269	Discounted Cash Flows	Yield	8.0	21.4	10.9
Non-performing commercial mortgage loans and commercial real estate owned	37,097	Discounted Cash Flows	Yield	11.0	18.1	14.2
			Months to Resolution	4.0	9.0	6.5
Performing residential mortgage loans	284,719	Discounted Cash Flows	Yield	4.0	12.8	5.8
Securitized residential mortgage loans <sup>(1)</sup>	94,965	Discounted Cash Flows	Yield	5.2	5.2	5.2
Non-performing residential mortgage loans and residential real estate owned	14,162	Discounted Cash Flows	Yield	4.6	20.9	9.0
			Months to Resolution <sup>(2)</sup>	15.2	17.3	28.9
			Projected Collateral Prepayments	<del>—%</del> 2.0	<del>3.6</del>	<del>3.7</del>
Credit default swaps on asset-backed securities	1,515	Net Discounted Cash Flows	Projected Collateral Losses	<del>10.0%</del> 6.5	<del>13.2</del>	
			Projected Collateral Recoveries	<del>9%</del> 7	<del>18.2</del>	<del>16.7</del>
			Projected Collateral Scheduled Amortization	<del>90.9%</del> 7.7	<del>33.4</del>	
					<del>100.0</del>	
Agency interest only residential mortgage-backed securities	6,269	Option Adjusted Spread ("OAS")	LIBOR OAS <sup>(3)</sup>	2113,521	753	
				<del>98.4%</del> 100.0	<del>66.6</del>	

Edgar Filing: Ellington Financial LLC - Form 10-Q

			Projected Collateral Prepayments		
			Projected Collateral Scheduled Amortization	<del>0.0</del> <del>1.6</del> <del>3.4</del>	<del>0.0</del>
Non-exchange traded common equity investment in mortgage-related entity	2,814	Enterprise Value	Equity Price-to-Book <sup>(4)</sup>	1.5x <del>1.5x</del> 1.5x	
Non-exchange traded preferred equity investment in mortgage-related entity	27,357	Enterprise Value	Equity Price-to-Book <sup>(4)</sup>	1.0x <del>1.0x</del> 1.0x	
Non-controlling equity interest in limited liability company	7,412	Discounted Cash Flows	Yield <sup>(5)</sup>	10.6% <del>12.8%</del> 10.9%	
Other secured borrowings, at fair value <sup>(1)</sup>	(89,569 )	Discounted Cash Flows	Yield	4.0% <del>4.0%</del> 4.0%	

(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.

Table of Contents

Represents the significant unobservable inputs used to fair value the financial instruments of the limited liability (5) 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

Edgar Filing: Ellington Financial LLC - Form 10-Q

Corporate equity investments	—	—	37,465	37,465
Total investments, at fair value	—	1,413,259	658,448	2,071,707

51

---



Table of Contents

Description (continued)	Level 1 (In thousands)	Level 2	Level 3	Total
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)

Table of Contents

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 (In thousands)	Valuation Technique	Unobservable Input	Range Min	Max	Weighted Average	
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	%
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	%

Edgar Filing: Ellington Financial LLC - Form 10-Q

			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		

Table of Contents

(continued) Description	Fair Value (In thousands)	Valuation Technique	Unobservable Input	Range Min	Max	Weighted Average	
Performing residential mortgage loans	\$ 42,030	Discounted Cash Flows	Yield	1.6	% 18.8	% 6.2	%
Securitized residential mortgage loans <sup>(1)</sup>	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	%
Credit default swaps on asset-backed securities	3,140	Net Discounted Cash Flows	Months to Resolution <sup>(2)</sup>	1.9	40.5	25.6	
			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 <sup>(3)</sup>	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 <sup>(4)</sup>	2.0x	2.0x	2.0x	
Non-exchange traded preferred equity investment in mortgage-related entity	20,774	Enterprise Value	Equity Price-to-Book <sup>(4)</sup>	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 <sup>(5)</sup>	\$96.91	\$96.91	\$96.91	
Non-controlling equity interest in limited liability company	5,693	Discounted Cash Flows	Yield <sup>(5)</sup>	9.1%	9.1%	9.1%	
Other secured borrowings, at fair value <sup>(1)</sup>	(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.

Table of Contents

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 nine-month periods ended September 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 September 30, 2018

(In thousands)	Ending Balance as of June 30, 2018	Accreted Discounts / (Amortized Premiums)	Net Realized Gain/(Loss)	Change in Unrealized Gain/(Loss)	Net Purchases/Sales/ Payments Issuances	Transfers In Level 3	Transfers Out of Level 3	Ending Balance as of September 30, 2018	
Assets:									
Investments, at fair value-									
Agency residential mortgage-backed securities	\$5,889	\$(509)	\$(24)	\$(67)	\$773	\$(209)	\$3,981	\$(1,055)	\$8,779
Private label residential mortgage-backed securities	96,396	(206)	335	(1,181)	48,860	(16,726)	3,942	(10,146)	121,274
Private label commercial mortgage-backed securities	8,761	4	198	494	—	(2,415)	—	(6,059)	983
Commercial mortgage loans	104,951	(300)	252	522	36,571	(16,188)	—	—	125,808
Residential mortgage loans	293,472	(513)	25	(400)	117,101	(17,225)	—	—	392,460
Collateralized loan obligations	6,109	302	(25)	(491)	24,115	(3,183)	2,184	—	29,011
Consumer loans and asset-backed securities backed by consumer loans	199,254	(8,012)	7,555	(7,615)	54,503	(41,181)	—	—	204,504
Corporate debt	8,850	13	87	(280)	6,780	(7,769)	—	—	7,681
Secured notes	11,126	405	—	(466)	—	—	—	—	11,065
Real estate owned	34,339	—	(81)	331	475	(120)	—	—	34,944

Edgar Filing: Ellington Financial LLC - Form 10-Q

Corporate equity investments	44,768	—	487	(377 )	—	(5,723 )	—	—	39,155
Total investments, at fair value	813,915	(8,816 )	8,809	(9,530 )	289,178	(110,739 )	10,107	(17,260 )	975,664
Financial derivatives—assets, at fair value—Credit default swaps on asset-backed securities	2,591	—	(986 )	1,307	27	(1,424 )	—	—	1,515
Total financial derivatives— assets, at fair value	2,591	—	(986 )	1,307	27	(1,424 )	—	—	1,515
Total investments and financial derivatives—assets, at fair value	\$816,506	\$(8,816 )	\$7,823	\$(8,223 )	\$289,205	\$(112,163 )	\$10,107	\$(17,260 )	\$977,179
Liabilities:									
Other secured borrowings, at fair value	\$(101,100)	\$—	\$—	\$(358 )	\$11,889	\$—	\$—	\$—	\$(89,569 )
Total other secured borrowings, at fair value	\$(101,100)	\$—	\$—	\$(358 )	\$11,889	\$—	\$—	\$—	\$(89,569 )

Table of Contents

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 September 30, 2018, as well as Level 3 financial instruments disposed of by the Company during the three-month period ended September 30, 2018. For Level 3 financial instruments held by the Company at September 30, 2018, change in net unrealized gain (loss) of \$(2.4) million, \$(0.1) million, and \$(0.4) million, for the three-month period ended September 30, 2018 relate to investments, financial derivatives—assets, and other secured borrowings, at fair value, respectively.

At September 30, 2018, the Company transferred \$17.3 million of securities from Level 3 to Level 2 and \$10.1 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 September 30, 2017

(In thousands)	Ending Balance as of June 30, 2017	Accreted Discounts / (Amortized Premiums)	Net Realized Gain/(Loss)	Change in Unrealized Gain/(Loss)	Net Purchases/Sales/ Payments Issuances	Transfers Into Level 3	Transfers Out of Level 3	Ending Balance as of September 30, 2017	
Assets:									
Investments, at fair value-									
Agency residential mortgage-backed securities	\$4,896	\$(377)	\$(78)	\$—	\$1,649	\$(28)	\$772	\$(1,015)	\$5,819
Private label residential mortgage-backed securities	79,123	261	1,018	409	3,040	(9,116)	5,207	(6,294)	73,648
Private label commercial mortgage-backed securities	13,809	(144)	(752)	934	2,100	(5,718)	1,713	(310)	11,632
Commercial mortgage loans	65,896	140	—	17	4,342	(2,500)	—	—	67,895
Residential mortgage loans	136,097	(874)	388	(1,013)	37,170	(8,805)	—	—	162,963
Collateralized loan obligations	42,536	346	61	(839)	7,108	(13,416)	—	(8,878)	26,918
Consumer loans and asset-backed securities backed by consumer loans	108,671	(3,366)	500	(528)	33,125	(22,062)	—	—	116,340
Corporate debt	20,535	(19)	128	(415)	409	(7,730)	—	—	12,908
Real estate owned	24,977	—	—	49	1,137	(401)	—	—	25,762
Corporate equity investments	35,698	—	329	(806)	4,641	(2,535)	—	—	37,327
Total investments, at fair value	532,238	(4,033)	1,594	(2,192)	94,721	(72,311)	7,692	(16,497)	541,212
Financial derivatives—assets, at									



Edgar Filing: Ellington Financial LLC - Form 10-Q

fair value-									
Credit default swaps									
on asset-backed securities	5,107	—	603	(577 )	27	(630 )	—	—	4,530
Total return swaps	—	—	21	—	—	(21 )	—	—	—
Total financial derivatives— assets, at fair value	5,107	—	624	(577 )	27	(651 )	—	—	4,530
Total investments and financial derivatives—assets, at fair value	\$537,345	\$(4,033 )	\$2,218	\$(2,769 )	\$94,748	\$(72,962)	\$7,692	\$(16,497 )	\$545,742
Liabilities:									
Financial derivatives—liabilities, at fair value-									
Credit default swaps									
on asset-backed securities	\$(207 )	\$—	\$(20 )	\$—	\$20	\$—	\$—	\$—	\$(207 )
Total return swaps	—	—	13	—	(13 )	—	—	—	—
Total financial derivatives— liabilities, at fair value	\$(207 )	\$—	\$(7 )	\$—	\$7	\$—	\$—	\$—	\$(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 September 30, 2017, as well as Level 3 financial instruments disposed of by the

Table of Contents

Company during the three-month period ended September 30, 2017. For Level 3 financial instruments held by the Company at September 30, 2017, change in net unrealized gain (loss) of \$(2.9) million and \$(0.6) million for the three-month period ended September 30, 2017 relate to investments and financial derivatives—assets, respectively. At September 30, 2017, the Company transferred \$16.5 million of securities from Level 3 to Level 2 and \$7.7 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.

Nine-Month Period Ended September 30, 2018

(In thousands)	Ending Balance as of December 31, 2017	Accreted Discounts / (Amortized Premiums)	Net Realized Gain/(Loss)	Change in Unrealized Gain/(Loss)	Net Purchases/Payments	Sales/Issuances	Transfers In Level 3	Transfers Out of Level 3	Ending Balance as of September 30, 2018
Assets:									
Investments, at fair value-									
Agency residential mortgage-backed securities	\$6,173	\$(1,711)	\$34	\$206	\$2,751	\$(1,166)	\$3,981	\$(1,489)	\$8,779
Private label residential mortgage-backed securities	101,297	1	2,836	(2,392)	76,816	(43,723)	7,139	(20,700)	121,274
Private label commercial mortgage-backed securities	12,347	(225)	1,815	2,111	1,480	(16,305)	—	(240)	983
Commercial mortgage loans	108,301	545	1,135	971	60,691	(45,835)	—	—	125,808
Residential mortgage loans	182,472	(1,692)	608	(1,319)	266,925	(54,534)	—	—	392,460
Collateralized loan obligations	24,911	345	826	(991)	47,837	(30,309)	—	(13,608)	29,011
Consumer loans and asset-backed securities backed by consumer loans	135,258	(20,864)	8,506	(30)	179,706	(98,072)	—	—	204,504
Corporate debt	23,947	—	235	(709)	7,684	(16,419)	—	(7,057)	7,681
Secured notes	—	497	—	(700)	11,268	—	—	—	11,065
Real estate owned	26,277	—	(527)	945	10,045	(1,796)	—	—	34,944
Corporate equity investments	37,465	—	1,669	3,948	9,078	(13,005)	—	—	39,155
Total investments, at fair value	658,448	(23,104)	17,137	2,040	674,281	(321,164)	11,120	(43,094)	975,664
Financial derivatives—assets, at fair value-									

Edgar Filing: Ellington Financial LLC - Form 10-Q

Credit default swaps on asset-backed securities	3,140	—	(739 )	759	72	(1,717 )	—	—	1,515
Total financial derivatives— assets at fair value	3,140	—	(739 )	759	72	(1,717 )	—	—	1,515
Total investments and financial derivatives— assets, at fair value	\$661,588	\$(23,104)	\$16,398	\$2,799	\$674,353	\$(322,881)	\$11,120	\$(43,094)	\$977,179
Liabilities:									
Other secured borrowings, at fair value	\$(125,105)	\$—	\$—	\$840	\$34,696	\$—	\$—	\$—	\$(89,569 )
Total other secured borrowings, at fair value	\$(125,105)	\$—	\$—	\$840	\$34,696	\$—	\$—	\$—	\$(89,569 )

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 September 30, 2018, as well as Level 3 financial instruments disposed of by the Company during the nine-month period ended September 30, 2018. For Level 3 financial instruments held by the Company at September 30, 2018, change in net unrealized gain (loss) of \$1.8 million, \$(0.6) million, and \$0.8 million, for the nine-month period ended September 30, 2018 relate to investments, financial derivatives—assets, and other secured borrowings, at fair value, respectively.

At September 30, 2018, the Company transferred \$43.1 million of securities from Level 3 to Level 2 and \$11.1 million from Level 2 to Level 3. Transfers between these hierarchy levels were based on the availability of sufficient observable inputs

Table of Contents

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.

Nine-Month Period Ended September 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/Sales/ Payments	Issuances	Transfers In Level 3	Transfers Out of Level 3	Ending Balance as of September 30, 2017
Assets:									
Investments, at fair value-									
Agency residential mortgage-backed securities	\$29,622	\$(7,233)	\$(515)	\$(140)	\$3,962	\$(153)	\$—	\$(19,724)	\$5,819
Private label residential mortgage-backed securities	90,083	1,672	1,334	7,319	31,117	(37,278)	15,043	(35,642)	73,648
Private label commercial mortgage-backed securities	43,268	574	(3,434)	7,873	2,120	(31,542)	—	(7,227)	11,632
Commercial mortgage loans	61,129	771	416	1,167	31,887	(27,475)	—	—	67,895
Residential mortgage loans	84,290	(196)	1,469	(1,090)	108,356	(29,866)	—	—	162,963
Collateralized loan obligations	44,956	(5,702)	1,477	2,135	52,269	(54,305)	—	(13,912)	26,918
Consumer loans and asset-backed securities backed by consumer loans	107,157	(9,631)	426	(247)	83,138	(64,503)	—	—	116,340
Corporate debt	25,004	236	676	(229)	83,900	(96,679)	—	—	12,908
Real estate owned	3,349	—	424	(246)	25,348	(3,113)	—	—	25,762
Corporate equity investments	29,392	—	1,848	(1,529)	16,416	(8,800)	—	—	37,327
Total investments, at fair value	518,250	(19,509)	4,121	15,013	438,513	(353,714)	15,043	(76,505)	541,212
Financial derivatives—assets, at fair value-									
Credit default swaps on asset-backed securities	5,326	—	971	(796)	95	(1,066)	—	—	4,530
Total return swaps	155	—	243	(155)	—	(243)	—	—	—
Warrants	106	—	(100)	(6)	—	—	—	—	—

Edgar Filing: Ellington Financial LLC - Form 10-Q

Total financial derivatives—assets at fair value	5,587	—	1,114	(957)	95	(1,309)	—	—	4,530
Total investments and financial derivatives—assets, at fair value	\$523,837	\$(19,509)	\$5,235	\$14,056	\$438,608	\$(355,023)	\$15,043	\$(76,505)	\$545,742
Liabilities:									
Financial derivatives—liabilities, at fair value—									
Credit default swaps on asset-backed securities	\$(256)	\$—	\$(485)	\$477	\$485	\$(428)	\$—	\$—	\$(207)
Total return swaps	(249)	—	(279)	249	291	(12)	—	—	—
Total financial derivatives—liabilities, at fair value	\$(505)	\$—	\$(764)	\$726	\$776	\$(440)	\$—	\$—	\$(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 September 30, 2017, as well as Level 3 financial instruments disposed of by the Company during the nine-month period ended September 30, 2017. For Level 3 financial instruments held by the Company at September 30, 2017, change in net unrealized gain (loss) of \$2.8 million, \$(0.8) million, and \$49 thousand, for the nine-month period ended September 30, 2017 relate to investments, financial derivatives—assets, and financial derivatives—liabilities, respectively.

At September 30, 2017, the Company transferred \$76.5 million of securities from Level 3 to Level 2 and \$15.0 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.

Table of Contents

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 \$85.6 million as of both September 30, 2018 and December 31, 2017. 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 September 30, 2018 and December 31, 2017:

(In thousands)	As of September 30, 2018	December 31, 2017
Assets:		
TBA securities, at fair value (Current principal: \$294,986 and \$118,806, respectively)	\$303,552	\$123,680
Receivable for securities sold relating to unsettled TBA sales	565,254	460,666
Liabilities:		
TBA securities sold short, at fair value (Current principal: -\$559,037 and -\$442,197, respectively)	\$(562,098)	\$(460,189)
Payable for securities purchased relating to unsettled TBA purchases	(304,489 )	(123,918 )
Net short TBA securities, at fair value	(258,546 )	(336,509 )

Table of Contents

## 5. Financial Derivatives

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

Three- and Nine-Month Periods Ended September 30, 2018:

Derivative Type	Primary Risk Exposure	Three-Month Period Ended September 30, 2018		Nine-Month Period Ended September 30, 2018	
		Net Realized Gain/(Loss)	Change in Net Unrealized Gain/(Loss) <sup>(2)</sup>	Net Realized Gain/(Loss)	Change in Net Unrealized Gain/(Loss) <sup>(2)</sup>
(In thousands)					
Credit default swaps on asset-backed securities	Credit	\$ (986)	\$ 1,307	\$ (739)	\$ 759
Credit default swaps on asset-backed indices	Credit	(153 )	(291 )	(2,199 )	1,161
Credit default swaps on corporate bond indices	Credit	(1,085)	(247 )	(3,322 )	2,181
Credit default swaps on corporate bonds	Credit	1,234	(1,031 )	4,230	(1,823 )
Total return swaps	Equity Market/Credit	32	(1,425 )	455	(1,739 )
Interest rate swaps	Interest Rate	1,000	1,171	(500 )	8,301
Futures	Interest Rate/Currency	729	1,021	1,652	2,002
Forwards	Currency	10	228	(59 )	712
Options	Interest Rate/ Equity Market	—	—	(62 )	76
Total		\$ 781	\$ 733	\$ (544)	\$ 11,630

Includes gain/(loss) on foreign currency transactions on derivatives in the amount of \$5 thousand and \$(0.2)

(1) million, for the three- and nine-month periods ended September 30, 2018, which is included on the Consolidated Statement of Operations in Realized gain (loss) on foreign currency transactions.

Includes foreign currency translation on derivatives in the amount of \$32 thousand and \$0.3 million, for the three- (2) and nine-month periods ended September 30, 2018, which is included on the Consolidated Statement of Operations in Change in net unrealized gain (loss) on foreign currency translation.

Table of Contents

Three- and Nine-Month Periods Ended September 30, 2017:

Derivative Type	Primary Risk Exposure	Three-Month Period Ended September 30, 2017		Nine-Month Period Ended September 30, 2017	
		Net Realized Gain/(Loss) <sup>(1)</sup>	Change in Net Unrealized Gain/(Loss) <sup>(2)</sup>	Net Realized Gain/(Loss) <sup>(1)</sup>	Change in Net Unrealized Gain/(Loss) <sup>(2)</sup>
(In thousands)					
Credit default swaps on asset-backed securities	Credit	\$583	\$ (577 )	\$486	\$ (319 )
Credit default swaps on asset-backed indices	Credit	(58 )	(522 )	(2,514 )	(3,132 )
Credit default swaps on corporate bond indices	Credit	(975 )	(591 )	(2,147 )	(573 )
Credit default swaps on corporate bonds	Credit	(241 )	1,837	218	842
Total return swaps	Equity Market/Credit	(293 )	1	(1,649 )	150
Interest rate swaps	Interest Rates	318	(694 )	(262 )	(1,492 )
Futures	Interest Rates	(152 )	147	(331 )	183
Forwards	Currency	(4,013 )	2,026	(7,357 )	1,162
Warrants	Equity Market	—	—	(100 )	(6 )
Mortgage loan purchase commitments	Interest Rates	—	—	—	31
Options	Credit/Interest Rate/Equity Market	167	26	18	41
<b>Total</b>		<b>\$(4,664)</b>	<b>\$ 1,653</b>	<b>\$(13,638)</b>	<b>\$ (3,113 )</b>

Includes gain/(loss) on foreign currency transactions on derivatives in the amount of \$(56) thousand and \$(68) (1)thousand, for the three- and nine-month periods ended September 30, 2017, which is included on the Consolidated Statement of Operations in Realized gain (loss) on foreign currency transactions.

Includes foreign currency translation on derivatives in the amount of \$(59) thousand and \$(194) thousand, for the (2)three- and nine-month periods ended September 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 nine-month period ended September 30, 2018 and the year ended December 31, 2017:

Derivative Type	Nine-Month Period Ended September 30, 2018	Year Ended December 31, 2017
(In thousands)		
Interest rate swaps	\$1,100,828	\$1,306,853
Credit default swaps	586,350	531,008
Total return swaps	45,612	19,760
Futures	165,494	48,244
Options	114,394	94,415
Forwards	43,107	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 September 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.

Table of Contents

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

Credit Derivatives	September 30, 2018	December 31, 2017
(In thousands)		
Fair Value of Written Credit Derivatives, Net	\$ 1,601	\$(4,770 )
Fair Value of Purchased Credit Derivatives Offsetting Written Credit Derivatives with Third Parties <sup>(1)</sup>	329	(3,582 )
Notional Value of Written Credit Derivatives <sup>(2)</sup>	133,218	177,588
Notional Value of Purchased Credit Derivatives Offsetting Written Credit Derivatives with Third Parties <sup>(1)</sup>	(15,517 )	(88,400 )

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

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 (2) 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 September 30, 2018, implied credit spreads on such contracts ranged between 38.4 and 1,968.2 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 \$(0.2) million and \$(0.4) million as of September 30, 2018 and December 31, 2017, respectively. Estimated points up front on these contracts as of September 30, 2018 ranged between 59.3 and 76.6 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 September 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 September 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

Table of Contents

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); these cash flows 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 \$5.0 million as of December 31, 2017, which is included on the Company's Consolidated Condensed Schedule of Investments in Corporate Equity Investments. The Company did not have an ownership interest in the CLO I Risk Retention Vehicle as of September 30, 2018.

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

Table of Contents

fair value of \$4.9 million as of September 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.

In August 2018, the CLO I Issuer optionally redeemed all of the notes issued by the CLO I Securitization. Simultaneously with this optional redemption, the CLO I Issuer issued various classes of new notes, which were in turn sold to unrelated third parties and to the applicable CLO Co-Participants ("the Reset CLO I Securitization"). These new notes are backed by the cash flows from the underlying corporate loans (including loans to be purchased during a reinvestment period); these cash flows are applied in accordance with the contractual priority of payments. The CLO Manager determined that the Reset CLO I Securitization met the requirements for exemption from the Risk Retention Rules. As a result, the CLO Manager commenced liquidation of the CLO I Risk Retention Vehicle, and substantially all of the liquidation proceeds have been distributed to the applicable CLO Co-Participants. As of September 30, 2018, the Company has received \$5.7 million in liquidation proceeds from the CLO I Risk Retention Vehicle.

While the Company retains credit risk in each of the Ellington-sponsored CLO Securitizations through its beneficial ownership of the most subordinated interests of each of the securitization trusts, which are the first to absorb credit losses on the securitized assets, the Company does not retain control of these assets nor does it have the power to direct the activities of the CLO Issuers that most significantly impact the CLO Issuers' economic performance. The following table details the Company's investments in notes issued by the Ellington-sponsored CLO Securitizations:

CLO Issuer <sup>(1)</sup>	CLO Pricing Date	CLO Closing Date	Total Face Amount of Notes Issued (In thousands)	Face Amount of Notes Initially Purchased (In thousands)	Aggregate Purchase Price	Notes Held <sup>(2)</sup> as of September 30, 2018 December 31, 2017 (In thousands)
CLO I Issuer <sup>(3)(4)</sup>	5/17	6/17	\$ 373,550	\$ 36,606 <sup>(5)</sup>	\$ 35,926	\$— \$24,299 <sup>(6)</sup>
CLO I Issuer <sup>(4)</sup>	8/18	8/18	461,840	36,579 <sup>(5)</sup>	25,622	22,109—
CLO II Issuer	12/17	1/18	452,800	18,223 <sup>(7)</sup>	16,621	16,537 <sup>(6)</sup>
CLO III Issuer	6/18	7/18	407,100	35,480 <sup>(7)</sup>	32,394	22,992—

(1) The Company does not have the power to direct the activities of the CLO Issuers that most significantly impact their economic performance.

(2) Included on the Company's Consolidated Condensed Schedule of Investments in Collateralized Loan Obligations.

(3) Excludes the Company's equity investment in the CLO I Risk Retention Vehicle, as discussed above.

(4) In August 2018, the notes originally issued by the CLO I Issuer in 2017 were fully redeemed, and the CLO I Issuer simultaneously issued new notes in conjunction with this full redemption.

(5) The Company purchased secured and 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

Table of Contents

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 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 September 30, 2018 and December 31, 2017:

(In thousands)	As of September 30, 2018	December 31, 2017
Assets:		
Cash and cash equivalents	\$ —	\$ 333
Investments, at fair value	94,962	94,424
Interest and dividends receivable	37	—
Liabilities:		
Interest and dividends payable	37	333
Other secured borrowings, at fair value	89,505	89,105

## 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 September 30, 2018 and December 31, 2017, the Company's total secured borrowings were \$1.840 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

65

---

Table of Contents

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 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 21 and 23 counterparties as of September 30, 2018 and December 31, 2017, respectively.

At September 30, 2018, approximately 16% 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 September 30, 2018 remaining days to maturity on the Company's open reverse repurchase agreements ranged from 1 day to 821 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 0.23% to 5.62% as of September 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 September 30, 2018 and December 31, 2017:

(In thousands)	September 30, 2018			December 31, 2017		
	Outstanding Borrowings	Weighted Interest Rate	Remaining Days to Maturity	Outstanding Borrowings	Weighted Interest Rate	Remaining Days to Maturity
<b>Agency RMBS:</b>						
30 Days or Less	\$209,417	2.21 %	15	\$287,014	1.43 %	15
31-60 Days	428,517	2.28 %	46	264,058	1.47 %	46
61-90 Days	234,616	2.39 %	77	277,950	1.63 %	74
91-120 Days	29,135	2.30 %	107	—	— %	—
151-180 Days	—	— %	—	602	2.56 %	158
<b>Total Agency RMBS</b>	<b>901,685</b>	<b>2.29 %</b>	<b>49</b>	<b>829,624</b>	<b>1.51 %</b>	<b>44</b>
<b>Credit:</b>						
30 Days or Less	26,546	2.55 %	5	37,433	2.61 %	13
31-60 Days	146,424	3.08 %	44	132,201	2.44 %	49
61-90 Days	188,582	2.87 %	77	130,875	2.75 %	77
91-120 Days	125,812	4.14 %	102	—	— %	—
121-150 Days	2,593	4.14 %	142	8,551	3.79 %	128
151-180 Days	26,389	3.81 %	164	8,300	3.40 %	164
181-360 Days	103,881	4.51 %	214	5,090	3.59 %	280

Edgar Filing: Ellington Financial LLC - Form 10-Q

> 360 Days	63,396	5.62%	821	56,944	4.94%	1094
Total Credit Assets	683,623	3.68%	165	379,394	3.00%	219
U.S. Treasury Securities:						
30 Days or Less	50,731	2.39%	1	297	1.70%	2
Total U.S. Treasury Securities	50,731	2.39%	1	297	1.70%	2
Total	\$1,636,039	2.88%	96	\$1,209,315	1.98%	99

66

---

Table of Contents

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 September 30, 2018 and December 31, 2017, the fair value of investments transferred as collateral under outstanding borrowings under reverse repurchase agreements was \$1.93 billion and \$1.41 billion, respectively. Collateral transferred under outstanding borrowings as of September 30, 2018 include investments in the amount of \$57.5 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 \$19.6 million and additional securities with a fair value of \$0.3 million as of September 30, 2018 to its counterparties. Collateral transferred under 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 September 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 September 30, 2018, the Company had outstanding borrowings under this facility in the amount of \$12.5 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 4.52%. As of September 30, 2018, the fair value of unsecured loans collateralizing this borrowing was \$20.3 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 September 30, 2018 and December 31, 2017, the Company had outstanding borrowings under this facility in the amount of \$101.7 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 4.48% and 4.34% as of September 30, 2018 and December 31, 2017, respectively. As of September 30, 2018 and December 31, 2017, the fair value of unsecured loans collateralizing this borrowing was \$151.2 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 September 30, 2018 and December 31, 2017, the fair value of the Company's outstanding liability associated with this securitization transaction was \$89.6 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 2.96% and 2.89% as of September 30, 2018 and December 31, 2017, respectively. As of September 30, 2018 and December 31, 2017, the fair value of non-QM loans held in the securitization trust was \$95.0 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

Table of Contents

financial covenants, associated with the Senior Notes. As of September 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.

#### Schedule of Principal Repayments

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

Year	Reverse Repurchase Agreements <sup>(1)</sup>	Other Secured Borrowings <sup>(2)</sup>	Senior Notes <sup>(1)</sup>	Total
(In thousands)				
2018	\$ 1,284,833	\$ 11,815	\$—	\$ 1,296,648
2019	287,810	134,959	—	422,769
2020	63,396	45,307	—	108,703
2021	—	12,520	—	12,520
2022	—	—	86,000	86,000
Total	\$ 1,636,039	\$ 204,601	\$ 86,000	\$ 1,926,640

(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 September 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 September 30, 2018, the deferred tax asset and the valuation allowance were valued at \$5.1 million and \$(5.1) 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.



Table of Contents

Summary information—For the three-month periods ended September 30, 2018 and 2017, the total base management fee incurred, net of fee rebates, was \$1.8 million and \$2.2 million, respectively. For the nine-month periods ended September 30, 2018 and 2017, the total base management fee incurred, net of fee rebates, was \$5.8 million and \$6.9 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 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 September 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 nine-month periods ended September 30, 2018 was \$0.4 million and \$0.7 million, respectively. The Company did not accrue an incentive fee for the three- or nine-month periods ended September 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

## Table of Contents

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 nine-month periods ended September 30, 2018 and 2017, the Company reimbursed the Manager \$5.3 million and \$4.1 million, respectively, for previously incurred operating and compensation expenses.

### Equity Investments in Certain Mortgage Originators

As of September 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 September 30, 2018, there were no advances outstanding. The Company has also entered into three agreements whereby it guarantees the performance of such mortgage originator under third-party borrowing arrangements. 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 \$19.8 million and \$11.7 million as of September 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 nine-month period ended September 30, 2018, the Company purchased loans under these agreements with an aggregate principal balance of \$134.5 million. As of September 30, 2018, the estimated remaining contingent purchase obligations of the Company under these purchase agreements was approximately \$116.0 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 \$180.7 million and \$114.5 million as of September 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.

Table of Contents

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 \$394.2 million and \$183.1 million as of September 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 several other investors, including an unrelated third party and various affiliates of Ellington. These loans are held in a consolidated subsidiary of the Company. As of September 30, 2018, the aggregate fair value of these loans was \$24.9 million and the non-controlling interests held by the unrelated third party and the various Ellington affiliates were \$2.1 million and \$6.2 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 an 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 September 30, 2018 the Company's ownership percentage of the jointly owned limited liability company was approximately 17% and had a fair value of \$1.1 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 September 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 September 30, 2018 and December 31, 2017, the Jointly Owned Entity has outstanding issued debt under the reverse repurchase agreement in the amount of \$137.1 million and \$106.6 million, respectively. The Company's portion of this debt as of September 30, 2018 and December 31, 2017 was \$63.4 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 September 30, 2018, no party to the reverse repurchase agreement was in default. In connection with this financing as of December 31, 2017 there was a receivable from the Jointly Owned Entity in the amount of \$23.4 million, which is included in Other assets on the Company's Consolidated Statement of Assets, Liabilities, and Equity. There was no receivable from the Jointly Owned Entity as of September 30, 2018.

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 September 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

Table of Contents

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 various 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-month periods ended September 30, 2018 and 2017, the amount of such fee rebates was \$0.4 million and \$0.2 million, respectively. For the nine-month periods ended September 30, 2018 and 2017, the amount of such fee rebates was \$0.9 million and \$0.2 million, respectively. In addition, from time to time, the Company along with various other affiliates of Ellington, and in certain cases various third parties, advance funds in the form of loans ("Initial Funding Loans") to securitization vehicles 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 Initial Funding Loans, the applicable securitization trust is required, at the closing of each respective CLO securitization, first to repay the warehouse facility, then to repay the Initial Funding Loans, 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 securitization vehicle would, subject to a cure period, be liquidated. As of September 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 \$1.1 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.

In July 2018, the Company purchased two loans from the CLO I Securitization, at the fair market price. The loans purchased by the Company had a face amount of \$2.9 million. These loans had a fair value of \$2.5 million at September 30, 2018 and are included on the Company's Consolidated Condensed Schedule of Investments in Corporate Debt.

#### 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 September 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 nine-month periods ended September 30, 2018 and 2017 was \$0.3 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.

On September 12, 2018, the Company's Board of Directors authorized the issuance of 14,440 LTIP Units to certain of its directors pursuant to the Company's 2017 Equity Incentive Plan. These LTIP Units will vest and become non-forfeitable on September 11, 2019.

Table of Contents

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

Grant Recipient	Number of LTIP Units Granted	Grant Date	Vesting Date <sup>(1)</sup>
Directors:	14,440	September 12, 2018	September 11, 2019
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 September 30, 2018	36,165		

(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 September 30, 2018 and 2017:

	Three-Month Period Ended September 30, 2018			Three-Month Period Ended September 30, 2017		
	Manager	Director/ Employee	Total	Manager	Director/ Employee	Total
LTIP Units Outstanding (6/30/2018 and 6/30/2017, respectively)	375,000	117,882	492,882	375,000	94,539	469,539
Granted	—	14,440	14,440	—	10,002	10,002
Exercised	—	(3,334 )	(3,334 )	—	(2,801 )	(2,801 )
LTIP Units Outstanding (9/30/2018 and 9/30/2017, respectively)	375,000	128,988	503,988	375,000	101,740	476,740
LTIP Units Vested and Outstanding (9/30/2018 and 9/30/2017, respectively)	375,000	92,823	467,823	375,000	71,430	446,430

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

	Nine-Month Period Ended September 30, 2018			Nine-Month Period Ended September 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	—	16,163	16,163	—	10,002	10,002
Exercised	—	(3,334 )	(3,334 )	—	(2,801 )	(2,801 )
LTIP Units Outstanding (9/30/2018 and 9/30/2017, respectively)	375,000	128,988	503,988	375,000	101,740	476,740
LTIP Units Vested and Outstanding (9/30/2018 and 9/30/2017, respectively)	375,000	92,823	467,823	375,000	71,430	446,430

As of September 30, 2018, there were an aggregate of 1,891,606 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 September 30, 2018 and



Table of Contents

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 September 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 September 30, 2018 and December 31, 2017 these joint venture partners' interests in subsidiaries of the Company were \$18.6 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 September 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 September 30, 2018 and 2017 were \$12.7 million and \$14.8 million, respectively. During the nine-month periods ended September 30, 2018 and 2017, the Board of Directors authorized dividends totaling \$1.23 per share and \$1.35 per share, respectively. Total dividends paid during the nine-month periods ended September 30, 2018 and 2017 were \$38.2 million and \$44.3 million, respectively.

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

	Three-Month Period Ended September 30,		Nine-Month Period Ended September 30,	
	2018	2017	2018	2017
Common Shares Outstanding (6/30/2018, 6/30/2017, 12/31/2017, and 12/31/2016, respectively)	30,149,880	32,112,697	31,335,938	32,294,703
Share Activity:				
Shares repurchased	—	(123,321 )	(1,186,058 )	(305,327 )
Director LTIP Units exercised	3,334	2,801	3,334	2,801
Shares issued in connection with incentive fee payment	1,841	—	1,841	—
Common Shares Outstanding (9/30/2018, 9/30/2017, 9/30/2018, and 9/30/2017, respectively)	30,155,055	31,992,177	30,155,055	31,992,177

If all LTIP and OP Units that have been previously issued were to become fully vested and exchanged for common shares as of September 30, 2018 and 2017, the Company's issued and outstanding common shares would increase to 30,871,043 shares and 32,680,917 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 nine-month period ended September 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. As of September 30, 2018, the Company had not repurchased shares under the current share repurchase program.

Table of Contents

## 13. Earnings Per Share

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

	Three-Month Period Ended September 30,		Nine-Month Period Ended September 30,	
	2018	2017	2018	2017
(In thousands except share amounts)				
Net increase (decrease) in shareholders' equity resulting from operations	\$6,661	\$ 6,195	\$48,892	\$ 26,537
Add: Net increase (decrease) in equity resulting from operations attributable to the participating non-controlling interest <sup>(1)</sup>	46	41	335	172
Net increase (decrease) in equity resulting from operations related to common shares, LTIP Unit holders, and participating non-controlling interest	6,707	6,236	49,227	26,709
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	6,553	6,106	48,111	26,155
Net increase (decrease) in shareholders' equity resulting from operations—LTIP Units	108	89	781	382
Dividends Paid <sup>(2)</sup> :				
Common shareholders	(12,362)	(14,451 )	(37,285 )	(43,416 )
LTIP Unit holders	(202 )	(211 )	(606 )	(634 )
Non-controlling interest	(87 )	(96 )	(261 )	(286 )
Total dividends paid to common shareholders, LTIP Unit holders, and non-controlling interest	(12,651 )	(14,758 )	(38,152 )	(44,336 )
Undistributed (Distributed in excess of) earnings:				
Common shareholders	(5,809 )	(8,345 )	10,826	(17,261 )
LTIP Unit holders	(94 )	(122 )	175	(252 )
Non-controlling interest	(41 )	(55 )	74	(114 )
Total undistributed (distributed in excess of) earnings attributable to common shareholders, LTIP Unit holders, and non-controlling interest	\$(5,944)	\$(8,522 )	\$11,075	\$(17,627 )
Weighted average shares outstanding (basic and diluted):				
Weighted average common shares outstanding	30,151,753	32,095,675	30,392,390	32,153,366
Weighted average participating LTIP Units	495,212	471,057	493,257	470,050
Weighted average non-controlling interest units	212,000	212,000	212,000	212,000
Basic earnings per common share:				
Distributed	\$0.41	\$ 0.45	\$ 1.23	\$ 1.35
Undistributed (Distributed in excess of)	(0.19 )	(0.26 )	0.35	(0.54 )
	\$0.22	\$ 0.19	\$ 1.58	\$ 0.81
Diluted earnings per common share:				
Distributed	\$0.41	\$ 0.45	\$ 1.23	\$ 1.35
Undistributed (Distributed in excess of)	(0.19 )	(0.26 )	0.35	(0.54 )
	\$0.22	\$ 0.19	\$ 1.58	\$ 0.81

For the three-month periods ended September 30, 2018 and 2017, excludes net increase (decrease) in equity resulting from operations of \$0.8 million and \$0.4 million, respectively, attributable to joint venture partners, which have non-participating interests as described in Note 11. For the nine-month periods ended September 30, 2018 and 2017, excludes net increase (decrease) in equity resulting from operations of \$1.8 million and \$1.1 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 September 30, 2018, investments with an aggregate value of approximately \$1.93 billion were held with dealers as collateral for various reverse repurchase agreements. The investments held as collateral include securities in the amount of

75

---

Table of Contents

\$57.5 million that were sold prior to period end but for which such sale had not yet settled as of September 30, 2018. The following table details the percentage of such collateral held by counterparties who hold greater than 15% of the aggregate \$1.93 billion in collateral for various reverse repurchase agreements as of September 30, 2018. In addition to the below, unencumbered investments, on a settlement date basis, of approximately \$37.2 million were held in custody at the Bank of New York Mellon Corporation as of September 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 September 30, 2018:

Dealer % of Total Due  
from Brokers

Morgan Stanley 39%

J.P. Morgan Securities LLC 23%

BNP Paribas Securities Corp. 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 September 30, 2018:

Dealer % of Total Receivable  
for Securities Sold

J.P. Morgan Securities LLC 42%

Bank of America Securities 27%

In addition, the Company held cash and cash equivalents of \$53.6 million and \$47.2 million as of September 30, 2018 and December 31, 2017, respectively. The below table details the concentration of cash and cash equivalents held by each counterparty:

Counterparty	As of	
	September 30, 2018	December 31, 2017
Bank of New York Mellon Corporation	63%	37%
Deutsche Bank Securities	10%	5%
Bank of America Securities	8%	2%
Morgan Stanley Institutional Liquidity Fund—Government Portfolio	5%	—%
BlackRock Liquidity Funds FedFund Portfolio	5%	56%
Goldman Sachs Financial Square Funds—Government Fund	5%	—%
US Bank N.A.	4%	—%

#### 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.

Table of Contents

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 September 30, 2018 and December 31, 2017.

	September 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 September 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.

September 30, 2018:

Description	Amount of Assets (Liabilities) Presented in the Consolidated Statements of Assets, Liabilities, and Equity <sup>(1)</sup>	Financial Instruments Available for Offset	Financial Instruments Transferred or Pledged as Collateral <sup>(2)(3)</sup>	Cash Collateral (Received) Pledged <sup>(2)(3)</sup>	Net Amount
(In thousands)					
Assets					
Financial derivatives—assets	\$ 31,338	\$ (19,749 )	\$ —	\$ (3,436 )	\$ 8,153
Repurchase agreements	160,422	(160,422 )	—	—	—
Liabilities					
Financial derivatives—liabilities	(27,226 )	19,749	—	7,477	—
Reverse repurchase agreements	(1,636,039 )	160,422	1,455,968	19,649	—

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 <sup>(2)(3)</sup>	Cash Collateral (Received) Pledged <sup>(2)(3)</sup>	Net Amount
-------------	---	---	--	---	---------------

Edgar Filing: Ellington Financial LLC - Form 10-Q

and Equity<sup>(1)</sup>

(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. 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
- (2) 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

Table of Contents

as of September 30, 2018 and December 31, 2017 were \$1.93 billion and \$1.41 billion, respectively. As of September 30, 2018 and December 31, 2017, total cash collateral on financial derivative assets excludes excess net cash collateral pledged of \$4.9 million and \$6.4 million, respectively. As of September 30, 2018 and December 31, 2017, total cash collateral on financial derivative liabilities excludes excess cash collateral pledged of \$8.9 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 September 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 three agreements whereby it guarantees the performance of this mortgage originator under master repurchase agreements. The Company's maximum guarantees are capped at \$40.0 million. As of September 30, 2018 the mortgage originator had \$20.6 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 September 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 September 30, 2018		Nine-Month Period Ended September 30, 2018	
	2017		2017	
Beginning Shareholders' Equity Per Share (6/30/2018, 6/30/2017, 12/31/2017, and 12/31/2016, respectively)	\$19.89	\$ 19.49	\$19.15	\$ 19.75
Net Investment Income	0.39	0.25	1.08	0.87
Net Realized/Unrealized Gains (Losses)	(0.14 )	(0.05 )	0.60	—
Results of Operations Attributable to Equity	0.25	0.20	1.68	0.87
Less: Results of Operations Attributable to Non-controlling Interests	(0.03 )	(0.01 )	(0.07 )	(0.04 )
Results of Operations Attributable to Shareholders' Equity <sup>(1)</sup>	0.22	0.19	1.61	0.83
Dividends Paid to Common Shareholders	(0.41 )	(0.45 )	(1.23 )	(1.35 )
Weighted Average Share Impact on Dividends Paid <sup>(2)</sup>	(0.01 )	(0.01 )	(0.03 )	(0.03 )
Accretive (Dilutive) Effect of Share Issuances (Net of Offering Costs), Share Repurchases, and Adjustments to Non-controlling Interest	—	0.02	0.19	0.04
Ending Shareholders' Equity Per Share (9/30/2018, 9/30/2017, 9/30/2018, and 9/30/2017, respectively) <sup>(3)</sup>	\$19.69	\$ 19.24	\$19.69	\$ 19.24
Shares Outstanding, end of period	30,155,055	30,155,055	30,155,055	30,155,055

(1)

Edgar Filing: Ellington Financial LLC - Form 10-Q

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 September 30, 2018 and 2017, shareholders' equity per share would be \$19.37 and \$18.96, respectively.



Table of Contents**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: <sup>(1)</sup>

	Three-Month Period Ended September 30, 2018		Nine-Month Period Ended September 30, 2017	
Total Return	1.10%	1.05%	9.43%	4.40%

(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 September 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 5.12% and 0.21%, respectively. For the nine-month periods ended September 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 19.37% and 10.52%, 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: <sup>(1)(2)</sup>

	Three-Month Period Ended September 30, 2018		Nine-Month Period Ended September 30, 2017	
Net Investment Income	7.75%	4.95%	7.20%	5.86%

(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: <sup>(1)(2)</sup>

	Three-Month Period Ended September 30, 2018		Nine-Month Period Ended September 30, 2017	
Operating expenses, before interest expense and other investment related expenses	(2.70)%	(2.76)%	(2.79)%	(2.80)%
Incentive fee	(0.07)%	—%	(0.12)%	—%
Interest expense and other investment related expenses	(12.97)%	(6.32)%	(11.26)%	(5.69)%
Total Expenses	(15.74)%	(9.08)%	(14.17)%	(8.49)%

(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 October 31, 2018, the Company's Board of Directors approved a dividend for the third quarter of 2018 in the amount of \$0.41 per share payable on December 17, 2018 to shareholders of record as of November 30, 2018.

Table of Contents

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 September 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

80

---

Table of Contents

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 September 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 September 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 September 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 \$1.8 billion. Of our total borrowings outstanding under reverse repos and Total other secured borrowings, approximately 49%, or \$901.7 million, relates to our Agency RMBS holdings, as of September 30, 2018. The remaining outstanding borrowings relate to our Credit portfolio and U.S. Treasury securities.

As of September 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 3.12 to 1 as of September 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 nine-month period ended September 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. We did not repurchase any common shares during the three-month period ended September 30, 2018. 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 continue to evaluate potential actions we may take, including possible changes to our structure as a publicly traded partnership. Although we have not completed our analysis or made any final decision, we currently expect, barring any unforeseen impediments, to convert from a publicly traded partnership to a REIT in the first half of 2019. In connection with

Table of Contents

such a conversion, we would expect to take several steps to help qualify as a REIT, including selling certain non-real-estate-related assets, and moving other non-real-estate-related assets into taxable REIT subsidiaries. A REIT conversion would also be facilitated by exchanging a portion of our existing public senior unsecured notes for private notes issued by one or more of our taxable subsidiaries.

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 September 30, 2018, our diluted book value per share was \$19.37, as compared to \$19.57 and \$18.85 as of June 30, 2018 and December 31, 2017, respectively. On a diluted basis, the Company's net-asset-value-based total return for the three- and nine-month periods ended September 30, 2018 was 1.09% and 9.42%, respectively. Additionally our diluted net-asset-value-based total return was 198.96% from our inception (August 17, 2007) through September 30, 2018, and our annualized inception-to-date diluted net-asset-value-based total return was 10.35% as of September 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
	. Whole pool pass-through certificates;
	. Partial pool pass-through certificates;
Agency RMBS	. 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."
	. Equity and mezzanine tranches of CLOs; and
CLOs	. Retained tranches from securitizations to which we have contributed assets, or participations in the accumulation of the underlying assets by providing capital to the vehicle accumulating assets for such securitization.
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.

Table of Contents

	<ul style="list-style-type: none"> <li>.RMBS backed by prime jumbo, Alt-A, manufactured housing, and subprime mortgages;</li> <li>.RMBS backed by fixed rate mortgages, Adjustable rate mortgages, or "ARMs," Option-ARMs, and Hybrid ARMs;</li> </ul>
Non-Agency and UK Non-Conforming RMBS	<ul style="list-style-type: none"> <li>.RMBS backed by first lien and second lien mortgages;</li> <li>.RMBS backed by mortgages originated in the United Kingdom;</li> <li>.Investment grade and non-investment grade securities;</li> <li>.Senior and subordinated securities;</li> <li>.IOs, POs, IIOs, and inverse floaters; and</li> <li>.Collateralized debt obligations, or "CDOs."</li> </ul>
Residential Mortgage Loans	<ul style="list-style-type: none"> <li>.Residential non-performing mortgage loans, or "NPLs";</li> <li>.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;</li> <li>.Property rehabilitation loans and bridge loans;</li> <li>.Non-QM loans; and</li> <li>.Retained tranches from securitizations to which we have contributed assets.</li> </ul>
Other	<ul style="list-style-type: none"> <li>.Real estate, including commercial and residential real property;</li> <li>.Strategic debt and/or equity investments in mortgage originators and other mortgage-related entities;</li> <li>.Mortgage servicing rights, or "MSRs";</li> <li>.Credit risk transfer securities, or "CRTs"; and</li> <li>.Other non-mortgage-related derivatives.</li> </ul>

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



## Table of Contents

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 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.

## Table of Contents

### 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.



## Table of Contents

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," of corporate bonds. Our credit hedges also currently include CDS tied to individual MBS or an index of several MBS, such as CDS on CMBS indices, or "CMBX."

We also opportunistically overlay our corporate credit hedges and mortgage-related derivatives with certain relative value long/short positions involving the same or similar instruments.

**Interest Rate Hedging**

We opportunistically hedge our interest rate risk by using various hedging strategies to mitigate such risks. The interest rate hedging instruments that we use and may use in the future include, without limitation:

86

---

Table of Contents

•TBAs;

•interest rate swaps (including floating-to-fixed, fixed-to-floating, floating-to-floating, or more complex swaps such as floating-to-inverse floating, callable or non-callable);

•CMOs;

•U.S. Treasury securities;

•swaptions, caps, floors, and other derivatives on interest rates;

•futures and forward contracts; and

•options on any of the foregoing.

In particular, from time to time we enter into short positions in interest rate swaps to offset the potential adverse effects that changes in interest rates will have on the value of certain of our assets and our financing costs. An interest rate swap is an agreement to exchange interest rate cash flows, calculated on a notional principal amount, at specified payment dates during the life of the agreement. Typically, one party pays a fixed interest rate and receives a floating interest rate and the other party pays a floating interest rate and receives a fixed interest rate. Each party's payment obligation is computed using a different interest rate. In an interest rate swap, the notional principal is generally not exchanged. We may also use interest rate-related instruments to hedge certain non-interest-related risks that we believe are correlated to interest rates. For example, to the extent that we believe that swap spreads (i.e., the difference between interest rate swap yields and U.S. Treasury yields) are correlated to credit spreads, we may take a position in swap spreads to hedge our credit spread risk. We may also opportunistically enter into swap spreads trades, or other interest rate-related trades, for speculative purposes.

Foreign Currency Hedging

To the extent we hold instruments denominated in currencies other than U.S. dollars, we may enter into transactions to offset the potential adverse effects of changes in currency exchange rates. In particular, we may use currency forward contracts and other currency-related derivatives to mitigate this risk.

Trends and Recent Market Developments

Market Overview

In September, the U.S. Federal Reserve, or the "Federal Reserve," raised the target range for the federal funds rate by 0.25%, to 2.00%–2.25%, its third rate increase in 2018. LIBOR rates, which drive many of our financing costs, increased in sympathy, with one-month LIBOR increasing 17 basis points to end the third quarter at 2.26%.

Three-month LIBOR increased 6 basis points to 2.40%. The spread between one- and three-month LIBOR narrowed to 14 basis points, down from 25 basis points at the end of the prior quarter.

In July and October of 2018, the Federal Reserve continued to increase the amount of the tapering of its reinvestments in line with the schedule it laid out in September 2017. The tapering of Agency RMBS purchases increased to \$16 billion per month in July and to \$20 billion per month in October. The tapering of U.S. Treasury purchases increased to \$24 billion per month in July and to \$30 billion per month in October.

The yield curve flattened for the seventh consecutive quarter: the 2-year U.S. Treasury yield rose 29 basis points to end the third quarter at 2.82%, while the 10-year U.S. Treasury yield increased 20 basis points to 3.06%. The spread between the 2-year and 10-year tightened to just 24 basis points, as compared to 33 basis points at the end of the second quarter and 85 basis points a year ago.

•Mortgage rates increased in the third quarter, with the Freddie Mac survey 30-year mortgage rate rising 17 basis points to end the quarter at 4.72%.

•Overall Agency RMBS prepayment rates continued to be muted during the quarter. The Mortgage Bankers Association's Refinance Index, which measures refinancing application volumes, fell 5% quarter over quarter, dropping to its lowest seasonally-adjusted level in more than 17 years.

• U.S. GDP growth for the second quarter was revised upward to 4.2%, the best quarterly growth rate in GDP since 2014. Total unemployment fell to 3.7% in September 2018, compared to 4.2% a year earlier.

During the third quarter, interest rates continued to rise and the yield curve flattened further, as the short end of the yield curve rose faster than the long end for the fifth consecutive quarter. The Federal Reserve raised rates again in September, citing continued strength of the economy, but this time it removed the word "accommodative" from its monetary stance, which may signal that the Federal Reserve views its current target range for the federal funds rate as

having a more neutral, as opposed to stimulative, effect on the economy. During the quarter, the 10-year U.S. Treasury traded within a tight 29-basis point range.



Table of Contents

The Federal Reserve also continued to increase the tapering of reinvestments according to schedule, although in October the tapering reached its scheduled cap. Going forward and barring any unforeseen circumstances, the pace of the Federal Reserve's tapering is expected to remain constant as its portfolio runs off. Globally, trade policy actions—both threatened and actual—continued to pose a risk to growth going forward.

Volatility was low in the third quarter, and domestic equities and corporate credit performed well. For the quarter, the S&P 500 Index rose 7.2% while the Bloomberg Barclays U.S. Corporate Bond Investment Grade and High Yield Indices both generated strong total returns. On the other hand, rising rates continued to be a headwind for RMBS, and despite the low volatility, the Bloomberg Barclays U.S. MBS Agency Fixed Rate Index generated a negative return of 12 basis points for the quarter. The Bloomberg Barclays U.S. MBS Agency Fixed Rate Index did, however, generate an excess return (on a duration-adjusted basis) of 17 basis points for the quarter over the Bloomberg Barclays U.S. Treasury Index.

## Portfolio Overview and Outlook

As of September 30, 2018, our total long Credit portfolio (excluding corporate credit relative value trading positions, hedges, and other derivatives) was \$1.379 billion as compared to \$1.224 billion as of June 30, 2018. Excluding tranches of our consolidated non-QM securitization trust that were sold to third parties, our total long Credit Portfolio was \$1.289 billion as of September 30, 2018, which was an increase of approximately 15% from \$1.123 billion as of June 30, 2018. As of September 30, 2018, our long Agency RMBS portfolio decreased approximately (0.4)% to \$944.4 million, from \$948.5 million as of June 30, 2018.

## Credit Summary

(\$ in thousands)	As of September 30, 2018			As of June 30, 2018		
	Fair Value <sup>(1)</sup>	% of Total Long Credit Portfolio	%	Fair Value <sup>(1)</sup>	% of Total Long Credit Portfolio	%
<b>Dollar Denominated:</b>						
CLOs <sup>(2)</sup>	\$ 156,087	11.3	%	\$ 210,935	17.2	%
CMBS	14,923	1.1	%	16,927	1.4	%
Commercial Mortgage Loans and Real Estate Owned, or "REO" <sup>(3)</sup>	160,515	11.6	%	139,546	11.4	%
Consumer Loans and ABS Backed by Consumer Loans <sup>(2)</sup>	209,848	15.2	%	196,584	16.1	%
Corporate Debt and Equity	5,579	0.4	%	6,181	0.5	%
Debt and Equity Investment in Mortgage-Related Entities	30,171	2.2	%	30,823	2.5	%
Residential Mortgage Loans and REO	393,846	28.6	%	294,366	24.0	%
Non-Agency RMBS	180,223	13.1	%	156,834	12.8	%
<b>Non-Dollar Denominated:</b>						
CLO	—	—	%	4,670	0.4	%
CMBS	16,250	1.2	%	16,309	1.3	%
Consumer Loans and ABS Backed by Consumer Loans	919	0.1	%	8,723	0.7	%
Corporate Debt and Equity	11,400	0.8	%	11,911	1.0	%
RMBS <sup>(4)</sup>	199,108	14.4	%	130,395	10.7	%
<b>Total Long Credit</b>	<b>\$ 1,378,869</b>	<b>100.0</b>	<b>%</b>	<b>\$ 1,224,204</b>	<b>100.0</b>	<b>%</b>

(1) This information does not include U.S. Treasury securities, interest rate swaps, TBA positions, positions related to our corporate credit relative value strategy, or other hedge positions.

(2) Includes equity investment in a securitization-related vehicle.

(3) Includes equity investment in a limited liability company holding small balance commercial mortgage loans.

(4) Includes RMBS secured by non-performing loans and REO, and an investment in an entity holding a securitization call right.

During the three-month period ended September 30, 2018, the growth of our Credit portfolio primarily came from net purchases in the following strategies: residential mortgage loans and REO, European RMBS, non-Agency RMBS, commercial mortgage loans and REO, and U.S. consumer loans and ABS. During the quarter, we had net sales in the following strategies: U.S. CLO, European consumer loans and ABS, and U.S. CMBS. Similar to prior quarters, we continued to hold a portfolio of

Table of Contents

more liquid, lower-risk assets, such as certain U.S. non-Agency RMBS and CLO note investments. We believe that these more liquid, lower-risk assets can be sold in a relatively short time period, to redeploy into higher-yielding strategies, and in the meantime these assets provide the opportunity for solid positive carry.

At the end of the third quarter, we held \$255.1 million of unsecuritized non-QM mortgages, and reached critical mass for a second securitization. In our CLO securitization strategy, we completed a reset of our first CLO securitization, whereby we extended the remaining reinvestment period, lowered the costs of the liabilities, and improved the capital structure of the CLO. As a result, our projected equity yield on this investment increased significantly going forward. In September 2018, Ellington formed a CLO warehouse for the purpose of accumulating assets for a potential CLO securitization; we are participating in this warehouse for what would be, subject to market conditions, our fourth CLO securitization.

Our Credit portfolio continued to be the primary driver of our earnings. We benefited from strong performance in several of our loan-related strategies, including small balance commercial mortgage loans, consumer loans, and U.S. non-performing loans. Among our securities strategies, non-Agency RMBS, U.S. CMBS, and Ellington-sponsored CLOs performed well.

Our credit hedges reduced profitability in many of our credit strategies, as yield spreads of many credit instruments tightened, including certain high yield corporate and CMBX products where we hold short positions as hedges. The interest rate hedges in our Credit strategy, which currently consist primarily of interest rate swaps, modestly benefited our results as interest rates rose. We had net losses on foreign currency-related transactions and translation, but these were more than offset by net gains on our foreign currency hedges.

In our corporate credit relative value strategy as of September 30, 2018, the market value of our long corporate bonds was \$39.0 million, the aggregate market value of our short corporate bonds was \$(36.7) million, and the aggregate notional amount of our credit default swaps where we were long protection and short protection was \$53.8 million and \$(74.4) million, respectively. This strategy generated positive results in the third quarter. As of June 30, 2018 in this strategy, the market value of our long corporate bonds was \$65.2 million, the aggregate market value of our short corporate bonds was \$(50.2) million, and the aggregate notional amount of our credit default swaps where we were long protection and short protection was \$81.8 million and \$(122.4) million, respectively.

## Agency RMBS Summary

(\$ in thousands)	As of September 30, 2018		As of June 30, 2018		
	Fair Value	% of Long Agency Portfolio	Fair Value	% of Long Agency Portfolio	
Long Agency RMBS: <sup>(1)</sup>					
Fixed Rate	\$850,453	90.0 %	\$853,120	89.9 %	
Floating Rate	5,539	0.6 %	6,155	0.7 %	
Reverse Mortgages	33,050	3.5 %	56,371	5.9 %	
IOs	55,396	5.9 %	32,899	3.5 %	
Total Long Agency RMBS <sup>(1)</sup>	944,438	100.0 %	948,545	100.0 %	
Net Short TBAs <sup>(1)</sup>	(258,546 )		(301,652 )		
Net Agency Portfolio	\$685,892		\$646,893		

<sup>(1)</sup> Long TBA positions, with a fair value of \$303.6 million and \$317.0 million, as of September 30, 2018 and June 30, 2018, respectively, are included in Net Short TBAs, and are not included in Long Agency RMBS.

Interest rates rose and Agency RMBS prices declined again during the quarter, which led to net realized and unrealized losses on our portfolio. However, these losses were more than offset by net interest income from the Agency portfolio and gains on our interest rate hedges. Portfolio turnover for our Agency strategy was approximately 8% for the quarter (as measured by sales and excluding paydowns). Our results also modestly benefited from the outperformance of specified pools relative to TBAs during the quarter, driven by weakening TBA dollar rolls. We continued to concentrate our long investments in specified pools and hold net short positions in TBAs as a significant

component of our interest rate hedging strategy.

Average pay-ups on our specified pools were 0.59% as of September 30, 2018 down slightly from 0.61% as of June 30, 2018. Pay-ups are price premiums for specified pools relative to their TBA counterparts. As of September 30, 2018, the weighted average coupon on our fixed-rate specified pools was 4.1%.

During the quarter we continued to hedge interest rate risk in our Agency strategy, primarily through the use of short positions in TBAs, and to a lesser extent interest rate swaps and short positions in U.S. Treasury securities and futures. For the

Table of Contents

quarter, we had total net gains from our interest rate hedges as interest rates increased. In our interest rate hedging portfolio, the relative proportion (based on 10-year equivalents<sup>1</sup>) of short positions in TBAs increased slightly quarter over quarter relative to other hedging instruments.

<sup>1</sup> "10-year equivalents" for a group of positions represent the amount of 10-year U.S. Treasury securities that would be expected to experience a similar change in market value under a standard parallel move in interest rates.

We expect to continue to target specified pools that, taking into account their particular composition and based on our prepayment projections, should: (1) generate attractive yields relative to other Agency RMBS and U.S. Treasury securities, (2) have less prepayment sensitivity to government policy shocks, and/or (3) create opportunities for trading gains once the market recognizes their value, which for newer pools may come only after several months, when actual prepayment experience can be observed. We believe that our research team, proprietary prepayment models, and extensive databases remain essential tools in our implementation of this strategy.

The following table summarizes the prepayment rates for our portfolio of fixed-rate specified pools (excluding those backed by reverse mortgages) for the three-month periods ended September 30, 2018, June 30, 2018, March 31, 2018, and December 31, 2017.

	Three-Month Period Ended			
	September 30, 2018	June 30, 2018	March 31, 2018 <sup>(2)</sup>	December 31, 2017 <sup>(2)</sup>
Three-Month Constant Prepayment Rates <sup>(1)</sup>	8.4%	8.3%	7.7%	9.8%

(1) Excludes Agency fixed-rate RMBS without any prepayment history.

(2) Prior period calculation methodology has been conformed to current period calculation methodology.

Table of Contents

The following table provides details about the composition of our portfolio of fixed-rate specified pools (excluding those backed by reverse mortgages) as of September 30, 2018 and June 30, 2018:

	September 30, 2018			June 30, 2018			
	Coupon	Current Principal	Fair Value	Weighted Average Loan Age (Months)	Current Principal	Fair Value	Weighted Average Loan Age (Months)
	(In thousands)				(In thousands)		
Fixed-rate Agency RMBS:							
15-year fixed-rate mortgages:							
	3.00	\$14,861	\$14,692	37	\$15,304	\$15,225	34
	3.50	54,681	55,024	38	57,920	58,667	36
	4.00	7,085	7,223	62	7,775	7,996	59
	4.50	2,313	2,391	90	2,465	2,564	87
Total 15-year fixed-rate mortgages		78,940	79,330	42	83,464	84,452	39
20-year fixed-rate mortgages:							
	4.00	1,575	1,612	59	1,594	1,648	56
	4.50	988	1,030	58	1,000	1,053	55
Total 20-year fixed-rate mortgages		2,563	2,642	59	2,594	2,701	56
30-year fixed-rate mortgages:							
	2.50	645	598	59	650	610	56
	3.00	11,838	11,421	38	7,852	7,647	45
	3.28	110	105	75	110	107	72
	3.50	150,332	148,687	25	161,853	161,919	22
	3.75	2,519	2,517	14	2,666	2,688	11
	4.00	317,592	322,804	27	298,580	306,371	26
	4.50	150,892	156,756	29	170,531	178,681	27
	5.00	93,265	98,318	22	76,587	81,298	30
	5.50	22,585	24,100	18	21,579	23,115	16
	6.00	2,943	3,175	62	3,239	3,531	63
Total 30-year fixed-rate mortgages		752,721	768,481	27	743,647	765,967	26
Total fixed-rate Agency RMBS		\$834,224	\$850,453	28	\$829,705	\$853,120	27

Our net Agency premium as a percentage of the fair value of our specified pool holdings is one metric that we use to measure the overall prepayment risk of our specified pool portfolio. Net Agency premium represents the total premium (excess of market value over outstanding principal balance) on our specified pool holdings less the total premium on related net short TBA positions. The lower our net Agency premium, the less we believe that our specified pool portfolio is exposed to market-wide increases in Agency RMBS prepayments. Our net Agency premium as a percentage of fair value of our specified pool holdings was approximately 1.4% and 1.8% as of September 30, 2018 and June 30, 2018, respectively. These figures take into account the net short TBA positions that we use to hedge our specified pool holdings, which had a notional value of \$469.3 million and a fair value of \$475.0 million as of September 30, 2018, as compared to a notional value of \$473.8 million and a fair value of \$483.9 million as of June 30, 2018. Excluding these TBA hedging positions, our Agency premium as a percentage of fair value was approximately 2.1% and 2.9% as of September 30, 2018 and June 30, 2018, respectively. Our Agency premium percentage and net Agency premium percentage may fluctuate from period to period based on a variety of factors, including market factors such as interest rates and mortgage rates, and, in the case of our net Agency premium percentage, based on the degree to which we hedge prepayment risk with short TBA positions. We believe that our focus on purchasing pools with specific prepayment characteristics provides a measure of protection against prepayments.



Table of Contents

## Financing

The following table details our borrowings outstanding and debt-to-equity ratios as of September 30, 2018 and June 30, 2018.

(\$ in thousands)	As of	
	September 30, 2018	June 30, 2018
Recourse <sup>(1)</sup> Borrowings:		
Reverse Repurchase Agreements	\$1,636,039	\$1,421,506
Other Secured Borrowings	12,520	10,990
Senior Notes, at par	86,000	86,000
Total Recourse Borrowings	\$1,734,559	\$1,518,496
Debt-to-Equity Ratio Based on Total Recourse Borrowings	2.81:1	2.48:1
Debt-to-Equity Ratio Based on Total Recourse Borrowings Excluding U.S. Treasury Securities	2.73:1	2.47:1
Non-Recourse <sup>(1)</sup> Borrowings:		
Other Secured Borrowings	\$101,670	\$84,640
Other Secured Borrowings, at fair value <sup>(2)</sup>	89,569	101,100
Total Recourse and Non-Recourse Borrowings	\$1,925,798	\$1,704,236
Debt-to-Equity Ratio Based on Total Recourse and Non-Recourse Borrowings	3.12:1	2.78:1
Debt-to-Equity Ratio Based on Total Recourse and Non-Recourse Borrowings Excluding U.S. Treasury Securities	3.04:1	2.77:1

All of our non-recourse borrowings are secured by collateral. In the event of default under a non-recourse (1) borrowing, the lender has a claim against the collateral but not any of our other assets. In the event of default under a recourse borrowing, the lender's claim is not limited to the collateral (if any).

(2) Relates to our non-QM loan securitization, where we have elected the fair value option on the related debt.

As of September 30, 2018, our outstanding borrowings included \$86.0 million in aggregate principal amount of unsecured Senior Notes maturing on September 1, 2022. The Senior Notes bear interest at a rate of 5.25% per annum, and interest is payable semi-annually in arrears on March 1 and September 1 of each year. Inclusive of debt issuance costs, the effective interest rate on the Senior Notes is 5.55%.

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or "Dodd-Frank Act," bank capital treatment of reverse repo transactions has become more onerous, thereby making it less attractive for banks to provide certain forms of reverse repo financing. While large banks still dominate the reverse repo market, many non-bank firms, not subject to the same regulations as large banks, are also active in providing reverse repo financing. The vast majority of our outstanding reverse repo financing is still provided by larger banks and dealers; however, in limited amounts, we have also entered into reverse repos with smaller non-bank dealers. In general, we continue to see strong appetite and competitive terms from both types of lenders.

Our debt-to-equity ratio including reverse repo, Total other secured borrowings, and our Senior Notes, increased to 3.04:1, excluding U.S. Treasury securities, as of September 30, 2018, as compared to 2.77:1 as of June 30, 2018, driven primarily by the growth in our Credit portfolio. Our debt-to-equity ratio, excluding the \$89.6 million of debt related to our non-QM loan securitization and U.S. Treasury securities, would have been 2.90:1 as of September 30, 2018.

Our debt-to-equity ratio may fluctuate period over period based on portfolio management decisions, market conditions, capital markets activities, and the timing of security purchase and sale transactions.

Our financing costs include interest expense related to our reverse repo borrowings, Total other secured borrowings, and Senior Notes. For the three-month period ended September 30, 2018 the weighted average cost of funds of our reverse repo borrowings and Total other secured borrowings increased 16 basis points to 2.94%, from 2.78% for the three-month period ended June 30, 2018. The interest rates on our reverse repo borrowings and Total other secured borrowings are based on, or correlated with, LIBOR, and as a result our associated borrowing costs have increased as LIBOR has increased.



Critical Accounting Policies

Our unaudited consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States, or "U.S. GAAP," for investment companies. In June 2007, the AICPA issued Amendments to

92

---

Table of Contents

ASC 946-10 ("ASC 946-10"), Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies. ASC 946-10 was effective for fiscal years beginning on or after December 15, 2007 with earlier application encouraged. After we adopted ASC 946-10, the FASB issued guidance which effectively delayed indefinitely the effective date of ASC 946-10. However, this additional guidance explicitly permitted entities that early adopted ASC 946-10 before December 31, 2007 to continue to apply the provisions of ASC 946-10. We have elected to continue to apply the provisions of ASC 946-10. ASC 946-10 provides guidance for determining whether an entity is within the scope of the AICPA Audit and Accounting Guide for Investment Companies, or the "Guide." The Guide provides guidance for determining whether the specialized industry accounting principles of the Guide should be retained in the financial statements of a parent company, of an investment company or of an equity method investor in an investment company. Effective August 17, 2007, we adopted ASC 946-10 and follow its provisions which, among other things, requires that investments be reported at fair value in the financial statements. Although we conduct our operations so that we are not required to register as an investment company under the Investment Company Act, for financial reporting purposes, we have elected to continue to apply the provisions of ASC 946-10.

In June 2013, the FASB issued ASU 2013-08, Financial Services-Investment Companies ("ASC 946"). This update modified the guidance for ASC 946 for determining whether an entity is an investment company for U.S. GAAP purposes. It requires entities that adopted Statement of Position 07-1 prior to its deferral to reassess whether they continue to meet the definition of an investment company for U.S. GAAP purposes. The guidance was effective for interim and annual reporting periods in fiscal years that began after December 15, 2013, with retrospective application; earlier application was prohibited. We have determined that we still meet the definition of an investment company under ASC 946 and, as a result, the presentation of our financial statements has not changed since the effective date of this ASU.

Certain of our critical accounting policies require us 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. We believe that all of the decisions and assessments upon which our consolidated financial statements are based were reasonable at the time made based upon information available to us at that time. We rely on the experience of our Manager and Ellington and analysis of historical and current market data in order to arrive at what we believe to be reasonable estimates. See Note 2 of the notes to our consolidated financial statements for a complete discussion of our significant accounting policies. We have identified our most critical accounting policies to be the following:

**Valuation:** For financial instruments that are traded in an "active market," the best measure of fair value is the quoted market price. However, many of our 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. Summary descriptions, for various categories of financial instruments, of the valuation methodologies management uses in determining fair value of our financial instruments are detailed in Note 2 of the notes to our consolidated financial statements. 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.

See the notes to our consolidated financial statements for more information on valuation techniques used by management in the valuation of our assets and liabilities.

**Purchases and Sales of Investments and Investment Income:** Purchase and sales transactions are generally recorded on trade date. Realized and unrealized gains and losses are calculated based on identified cost. We generally amortize premiums and accrete discounts on our fixed-income investments using the effective interest method.

See the notes to our consolidated financial statements for more information on the assumptions and methods that we use to amortize purchase premiums and accrete purchase discounts.

**Recent Accounting Pronouncements**

Refer to the notes to our consolidated financial statements for a description of relevant recent accounting pronouncements.



Table of Contents

## Financial Condition

The following table summarizes our investment portfolio<sup>(1)</sup> as of September 30, 2018 and December 31, 2017.

(In thousands)	September 30, 2018		December 31, 2017	
	Fair Value	Cost	Fair Value	Cost
<b>Long:</b>				
<b>Credit:</b>				
<b>Dollar Denominated:</b>				
CLO <sup>(2)</sup>	\$ 156,087	\$ 160,561	\$ 184,569	\$ 189,234
CMBS	14,923	13,995	29,144	31,228
Commercial Mortgage Loans and REO <sup>(3)</sup>	160,515	158,159	133,987	133,498
Consumer Loans and ABS Backed by Consumer Loans <sup>(2)</sup>	209,848	218,183	138,202	148,657
Corporate Debt and Equity	44,559	43,250	59,452	59,974
Debt and Equity Investment in Mortgage-Related Entities	30,171	25,314	29,017	28,218
Non-Agency RMBS	180,223	168,399	159,743	146,606
Residential Mortgage Loans and REO	393,846	392,634	183,063	180,682
<b>Non-Dollar Denominated:</b>				
CLO	—	—	31,280	28,957
CMBS	16,250	16,774	11,601	10,846
Consumer Loans and ABS Backed by Consumer Loans	919	825	2,749	1,075
Corporate Debt and Equity	11,400	12,165	13,463	13,785
RMBS <sup>(4)</sup>	199,108	200,416	99,923	95,672
<b>Agency:</b>				
Fixed-Rate Specified Pools	850,453	877,590	768,751	774,696
Floating-Rate Specified Pools	5,539	5,684	8,067	8,135
IOs	33,050	34,134	34,150	35,157
Reverse Mortgage Pools	55,396	57,552	60,866	61,460
TBAs	303,552	304,331	123,680	123,874
<b>Government:</b>				
Dollar Denominated	4,230	4,257	—	—
<b>Total Long</b>	<b>2,670,069</b>	<b>2,694,223</b>	<b>2,071,707</b>	<b>2,071,754</b>
<b>Repurchase Agreements</b>				
Dollar Denominated	140,352	140,352	84,668	84,668
Non-Dollar Denominated	20,070	20,116	71,281	70,441
<b>Total Repurchase Agreements</b>	<b>160,422</b>	<b>160,468</b>	<b>155,949</b>	<b>155,109</b>
<b>Short:</b>				
<b>Credit:</b>				
<b>Dollar Denominated:</b>				
Corporate Debt and Equity	(60,809 )	(60,965 )	(91,902 )	(91,778 )
<b>Agency:</b>				
TBAs	(562,098 )	(564,232 )	(460,189 )	(459,953 )
<b>Government:</b>				
Dollar Denominated	(52,809 )	(52,884 )	(53,021 )	(53,322 )
Non-Dollar Denominated	(19,633 )	(19,605 )	(37,128 )	(35,149 )
<b>Total Short</b>	<b>(695,349 )</b>	<b>(697,686 )</b>	<b>(642,240 )</b>	<b>(640,202 )</b>
<b>Net Total</b>	<b>\$ 2,135,142</b>	<b>\$ 2,157,005</b>	<b>\$ 1,585,416</b>	<b>\$ 1,586,661</b>

(1) For more detailed information about the investments in our portfolio, please refer to the Consolidated Condensed Schedule of Investments contained in our consolidated financial statements.

(2) Includes equity investment in a securitization-related vehicle.

(3)

Includes equity investment in a limited liability company holding small balance commercial mortgage loans.

(4) Includes RMBS secured by non-performing loans and REO, and an investment in an entity holding a securitization call right.

Table of Contents

The following table summarizes our financial derivatives portfolio<sup>(1)(2)</sup> as of September 30, 2018 and December 31, 2017.

(In thousands)	As of September 30, 2018			Net Fair Value	As of December 31, 2017			Net Fair Value
	Long	Short	Net		Long	Short	Net	
<b>Mortgage-Related Derivatives:</b>								
CDS on MBS and MBS Indices	\$7,406	\$(21,915)	\$(14,509)	\$3,860	\$7,712	\$(34,421)	\$(26,709)	\$7,553
Total Net Mortgage-Related Derivatives	7,406	(21,915)	(14,509)	3,860	7,712	(34,421)	(26,709)	7,553
<b>Corporate-Related Derivatives:</b>								
CDS on Corporate Bonds and Corporate Bond Indices	125,812	(382,120)	(256,308)	(10,013)	169,876	(446,236)	(276,360)	(17,980)
Total Return Swaps on Corporate Equities <sup>(3)</sup>	—	(18,964)	(18,964)	2	235	(10,317)	(10,082)	—
Total Return Swaps on Corporate Bond Indices <sup>(4)</sup>	—	(56,140)	(56,140)	(1,740)	—	—	—	—
Total Net Corporate-Related Derivatives	125,812	(457,224)	(331,412)	(11,751)	170,111	(456,553)	(286,442)	(17,980)
<b>Interest Rate-Related Derivatives:</b>								
Interest Rate Swaps	319,456	(781,541)	(462,085)	10,220	453,350	(925,644)	(472,294)	3,231
U.S. Treasury Futures <sup>(5)</sup>	—	(90,900)	(90,900)	1,333	—	(6,800)	(6,800)	45
Eurodollar Futures <sup>(6)</sup>	—	(133,000)	(133,000)	22	—	—	—	—
Total Interest Rate-Related Derivatives				11,575				3,276
<b>Other Derivatives:</b>								
Foreign Currency Forwards <sup>(7)</sup>	—	(43,736)	(43,736)	239	—	(42,306)	(42,306)	(473)
Foreign Currency Futures <sup>(8)</sup>	—	(48,710)	(48,710)	184	—	(27,000)	(27,000)	(508)
Other <sup>(9)</sup>	n/a	n/a	n/a	5	n/a	n/a	n/a	24
Total Net Other Derivatives				428				(957)
Net Total				\$4,112				\$(8,108)

(1) For more detailed information about the financial derivatives in our portfolio, please refer to the Consolidated Condensed Schedule of Investments as of these dates contained in our consolidated financial statements.

(2) In the table above, fair value of certain derivative transactions are shown on a net basis. The accompanying financial statements separate derivative transactions as either assets or liabilities. As of September 30, 2018, derivative assets and derivative liabilities were \$31.3 million and \$(27.2) million, respectively, for a net fair value of \$4.1 million, as reflected in "Net Total" above. As of December 31, 2017, derivative assets and derivative liabilities were \$28.2 million and \$(36.3) million, respectively, for a net fair value of \$(8.1) million, as reflected in "Net Total" above.

(3) Notional value represents number of underlying shares multiplied by the closing price of the underlying security.

(4) Notional value represents the number of underlying index units multiplied by the reference price.

(5) Notional value represents the total face amount of U.S. Treasury securities underlying all contracts held. As of September 30, 2018 and December 31, 2017 a total of 909 and 68 short U.S. Treasury futures contracts were held, respectively.

(6) Every \$1,000,000 in notional value represents one contract.

(7) Short notional value represents U.S. Dollars to be received by us at the maturity of the forward contract. Long notional value represents U.S. Dollars to be paid by us at the maturity of the forward contract.

(8) Notional value represents the total face amount of currency futures underlying all contracts held. As of September 30, 2018 and December 31, 2017 a total of 411 and 216 short foreign currency futures contracts were held,

respectively.

As of September 30, 2018 includes interest rate caps and interest rate "basis" swaps whereby the Company pays (9) one floating rate and receives a different floating rate. As of December 31, 2017 includes interest rate caps, equity call options, and interest rate "basis" swaps.

As of September 30, 2018, our Consolidated Statement of Assets, Liabilities, and Equity reflects total assets of \$3.7 billion as compared to \$3.0 billion as of December 31, 2017. Total liabilities as of September 30, 2018 and December 31, 2017 were \$3.1 billion and \$2.4 billion, respectively. Our portfolios of investments, financial derivatives, and repurchase agreements included in total assets were \$2.9 billion and \$2.3 billion as of September 30, 2018 and December 31, 2017, respectively, while our investments sold short and financial derivatives included in total liabilities were \$722.6 million and \$678.5 million as of September 30, 2018 and December 31, 2017, respectively. Investments sold short consist principally of short positions in TBAs, which we primarily use to hedge the risk of rising interest rates on our investment portfolio. Typically, we hold a net short position in TBAs. The amounts of net short TBAs, as well as of other hedging instruments, may fluctuate according to the size of our investment portfolio as well as according to how we view market dynamics as favoring the use of one hedging instrument or another. As of September 30, 2018 and December 31, 2017, we had a net short TBA position of \$258.5 million and \$336.5 million, respectively.

Table of Contents

TBA-related assets include TBAs and receivables for TBAs sold short, and TBA-related liabilities include TBAs sold short and payables for TBAs purchased. As of September 30, 2018, total assets included \$303.6 million of TBAs as well as \$565.3 million of receivables for securities sold relating to unsettled TBA sales. As of December 31, 2017, total assets included \$123.7 million of TBAs as well as \$460.7 million of receivables for securities sold relating to unsettled TBA sales. As of September 30, 2018, total liabilities included \$562.1 million of TBAs sold short as well as \$304.5 million of payables for securities purchased relating to unsettled TBA purchases. As of December 31, 2017, total liabilities included \$460.2 million of TBAs sold short as well as \$123.9 million of payables for securities purchased relating to unsettled TBA purchases. Open TBA purchases and sales involving the same counterparty, the same underlying deliverable Agency pass-throughs, and the same settlement date are reflected in our consolidated financial statements on a net basis.

For a more detailed discussion of our investment portfolio, see "—Trends and Recent Market Developments—Portfolio Overview and Outlook" above.

We use mortgage-related credit derivatives primarily to hedge credit risk in certain credit strategies, although we also take net long positions in certain CDS on RMBS and CMBS indices. Our CDS on individual RMBS represent "single-name" positions whereby we have synthetically purchased credit protection on specific non-Agency RMBS bonds. As there is no longer an active market for CDS on individual RMBS, our portfolio continues to run off. We also use CDS on corporate bond indices, options thereon, and various other instruments as a means to hedge credit risk, or for relative value trading purposes. As market conditions change, especially as the pricing of various credit hedging instruments changes in relation to our outlook on future credit performance, we continuously re-evaluate both the extent to which we hedge credit risk and the particular mix of instruments that we use to hedge credit risk.

We often hold long and/or short positions in corporate bonds/equities. Our long and short positions in corporate bonds/equities can serve as outright investments, portfolio hedges, or components of relative value trading opportunities and/or strategies. We have also implemented an interest rate derivatives trading strategy. Within this strategy, we can take long and/or short positions in various interest rate-related instruments, such as U.S. Treasury securities, interest rate swaps, futures, and options. While some of the trading positions in this strategy are intended as hedges for various exposures in our overall portfolio, we also may take speculative positions to capitalize on what we view as market inefficiencies or anomalies.

We use a variety of instruments to hedge interest rate risk in our portfolio, including non-derivative instruments such as TBAs, U.S. Treasury securities and sovereign debt instruments, and derivative instruments such as interest rate swaps, Eurodollar and U.S. Treasury futures, and options on the foregoing. The mix of instruments that we use to hedge interest rate risk may change materially from one period to the next.

We have also entered into foreign currency forward contracts in order to hedge risks associated with foreign currency fluctuations.

We have entered into reverse repos to finance many of our assets. As of September 30, 2018 and December 31, 2017, indebtedness outstanding on our reverse repos was approximately \$1.6 billion and \$1.2 billion respectively. As of September 30, 2018, we had total Agency RMBS of \$939.7 million financed with reverse repos as compared to \$866.1 million as of December 31, 2017. As of September 30, 2018, we had total Credit assets of \$936.1 million financed with reverse repos as compared to \$542.4 million as of December 31, 2017. As of September 30, 2018 and December 31, 2017 we also had total U.S. Treasury securities of \$50.5 million and \$0.3 million, respectively, financed with reverse repos. Outstanding indebtedness under reverse repos for Agency RMBS as of September 30, 2018 and December 31, 2017 was \$901.7 million and \$829.6 million, respectively, while outstanding indebtedness under reverse repos for our Credit portfolio as of September 30, 2018 and December 31, 2017 was \$683.6 million and \$379.4 million, respectively. Outstanding indebtedness under reverse repos for U.S. Treasury securities as of September 30, 2018 and December 31, 2017 was \$50.7 million and \$0.3 million, respectively. Our reverse repos bear interest at rates that have historically moved in close relationship to LIBOR. We account for our reverse repos as collateralized borrowings. In addition to our reverse repos, as of September 30, 2018 we had Total other secured borrowings of \$203.8 million, used to finance \$266.5 million of non-QM and consumer loans. This compares to Total other secured borrowings of \$183.0 million as of December 31, 2017, used to finance \$222.1 million of non-QM and consumer loans. In addition to our secured borrowings, we had \$86.0 million of unsecured Senior Notes outstanding



as of both September 30, 2018 and December 31, 2017.

As of September 30, 2018 and December 31, 2017 our debt-to-equity ratio was 3.12 to one and 2.38 to one, respectively. Excluding U.S. Treasury securities our debt-to-equity ratio as of September 30, 2018 and December 31, 2017 was 3.04 to one and 2.38 to one, respectively. See the discussion in "—Liquidity and Capital Resources" below for further information on our reverse repos.

In connection with our derivative and TBA transactions, in certain circumstances we may require that counterparties post collateral with us. When we exit a derivative or TBA transaction for which a counterparty has posted collateral, we may be

Table of Contents

required to return some or all of the related collateral to the respective counterparty. As of September 30, 2018 and December 31, 2017, our derivative and TBA counterparties posted an aggregate value of approximately \$4.6 million and \$1.7 million of collateral with us, respectively. This collateral posted with us is included in Due to brokers on our Consolidated Statement of Assets, Liabilities, and Equity.

**TBA Market**

We generally do not settle our purchases and sales of TBAs. If, for example, we wish to maintain a short position in a particular TBA as a hedge, we may "roll" the short TBA transaction. In a hypothetical roll transaction, we might have previously entered into a contract to sell a specified amount of 30-year FNMA 4.5% TBA pass-throughs to a particular counterparty on a specified settlement date. As this settlement date approaches, because we generally do not intend to settle the sale transaction, but we wish to maintain the short position, we enter into a roll transaction whereby we purchase the same amount of 30-year FNMA 4.5% TBA pass-throughs (but not necessarily from the same counterparty) for the same specified settlement date, and we sell the same amount of 30-year FNMA 4.5% TBA pass-throughs (potentially to yet another counterparty) for a later settlement date. In this way, we have essentially "flattened out" our 30-year FNMA 4.5% TBA pass-through position for the earlier settlement date (i.e., offset the original sale with a corresponding purchase), and established a new short position for the later settlement date, hence maintaining our short position. By rolling our transaction, we maintain our desired short position in 30-year FNMA 4.5% securities without settling the original sale transaction.

In the case where the counterparty from whom we purchase (or to whom we sell) for the earlier settlement date is the same as the counterparty to whom we sell (or from whom we purchase) for the later settlement date, and when the purchase and sale are transacted simultaneously, the pair of simultaneous purchase and sale transactions is often referred to as a "TBA roll" transaction.

In some instances, to avoid taking or making delivery of TBA securities, we will "pair off" an open purchase or sale transaction with an offsetting sale or purchase with the same counterparty. Alternatively, we will "assign" open transactions from counterparties from whom we have purchased to other counterparties to whom we have sold. In either case, no securities are actually delivered, but instead the net difference in trade proceeds of the offsetting transactions is calculated and a money wire representing such difference is sent to the appropriate party.

For the nine-month period ended September 30, 2018 and 2017, as disclosed on our Consolidated Statement of Cash Flows, the aggregate TBA activity, or volume of closed transactions based on the sum of the absolute value of buy and sell transactions, was \$21.5 billion and \$17.2 billion, respectively. Our TBA activity has principally consisted of: (a) sales (respectively purchases) of TBAs as hedges in connection with purchases (respectively sales) of certain other assets (especially fixed-rate Agency whole pools); (b) TBA roll transactions (as described above) effected to maintain existing TBA short positions; and (c) TBA "sector rotation" transactions whereby a short position in one TBA security is replaced with a short position in a different TBA security. Since we have actively turned over our portfolio of fixed-rate Agency whole pools, the volume of TBA hedging transactions has also been correspondingly high.

Moreover, our fixed-rate Agency whole pool portfolio is typically larger in gross size than our equity capital base, and so we tend to hold large short TBA positions relative to our equity capital base at any time. Finally, the entire amount of short TBA positions held at each monthly TBA settlement date is typically rolled to the following month, and since the amount of short TBA positions tends to be large relative to our equity capital base, TBA roll transaction volume over multi-month periods can represent a multiple of our equity capital base.

**Equity**

As of September 30, 2018, our equity decreased by approximately \$4.3 million to \$616.7 million from \$621.0 million as of December 31, 2017. This decrease principally consisted of dividends paid of \$38.2 million, distributions to joint venture partners of approximately \$11.7 million, and payments to repurchase common shares of \$17.6 million. These decreases were partially offset by a net increase in equity resulting from operations for the nine-month period ended September 30, 2018 of \$51.0 million and an increase related to contributions from our non-controlling interests of approximately \$11.9 million. Shareholders' equity, which excludes the non-controlling interests related to the minority interest in the Operating Partnership as well the minority interests of our joint venture partners, was \$593.8 million as of September 30, 2018.



Table of Contents

## Results of Operations for the Three- and Nine-Month Periods Ended September 30, 2018 and 2017

The table below represents the net increase (decrease) in equity resulting from operations for the three- and nine-month periods ended September 30, 2018 and 2017.

(In thousands except per share amounts)	Three-Month Period Ended September 30,		Nine-Month Period Ended September 30,	
	2018	2017	2018	2017
Interest income	\$35,300	\$21,145	\$95,333	\$65,819
Other income	1,046	1,232	2,857	3,043
Total investment income	36,346	22,377	98,190	68,862
Expenses:				
Base management fee to affiliate (Net of fee rebates of \$423, \$172, \$950, and \$172, respectively)	1,830	2,161	5,829	6,942
Incentive fee to affiliate	424	—	715	—
Interest expense	15,678	8,166	40,624	21,794
Other investment related expenses	4,384	1,908	11,107	5,487
Other operating expenses	2,352	2,240	7,004	6,530
Total expenses	24,668	14,475	65,279	40,753
Net investment income	11,678	7,902	32,911	28,109
Net realized and change in net unrealized gain (loss) on investments	(4,821 )	(663 )	7,980	9,209
Net realized and change in net unrealized gain (loss) on other secured borrowings	(358 )	—	840	—
Net realized and change in net unrealized gain (loss) on financial derivatives, excluding currency hedges	652	(900 )	7,671	(10,303 )
Net realized and change in net unrealized gain (loss) on financial derivatives—currency hedges	825	(1,987 )	3,285	(6,195 )
Net foreign currency gain (loss)	(502 )	2,243	(1,706 )	6,946
Net increase (decrease) in equity resulting from operations	7,474	6,595	50,981	27,766
Less: Net increase (decrease) in equity resulting from operations attributable to non-controlling interests	813	400	2,089	1,229
Net increase (decrease) in shareholders' equity resulting from operations	\$6,661	\$6,195	\$48,892	\$26,537
Net increase (decrease) in shareholders' equity resulting from operations per share	\$0.22	\$0.19	\$1.58	\$0.81

## Results of Operations for the Three-Month Periods Ended September 30, 2018 and 2017

## Summary of Net Increase in Shareholders' Equity from Operations

For the three-month periods ended September 30, 2018 and 2017 we had a net increase in shareholders' equity resulting from operations of \$6.7 million and \$6.2 million, respectively. The period-over-period increase in our results of operations was primarily due to an increase in net investment income and a reversal in our net realized and unrealized gains and (losses) on our financial derivatives, partially offset by an increase in net realized and unrealized losses on investments. For the three-month period ended September 30, 2018 we had net realized and unrealized gains on our financial derivatives, excluding currency hedges, of \$0.7 million as compared to net realized and unrealized losses of \$(0.9) million for the three-month period ended September 30, 2017. We also had an increase in net investment income of \$3.8 million, period over period. We had net realized and unrealized losses on investments of \$(4.8) million for the three-month period ended September 30, 2018 as compared to \$(0.7) million for the three-month period ended September 30, 2017. Total return based on changes in "net asset value" or "book value" for our common shares was 1.10% for the three-month period ended September 30, 2018 as compared to 1.05% for the three-month period ended September 30, 2017. Total return on our common shares is calculated based on changes in net asset value per share or book value per share and assumes reinvestment of dividends.

## Net Investment Income

Net investment income was \$11.7 million and \$7.9 million for the three-month periods ended September 30, 2018 and 2017, respectively. Net investment income consists of interest and other income less total expenses. The period-over-period

Table of Contents

increase in net investment income was due to an increase in total investment income, principally interest income, partially offset by an increase in expenses, mainly interest expense and other investment related expenses.

**Interest Income**

Interest income was \$35.3 million for the three-month period ended September 30, 2018 as compared to \$21.1 million for the three-month period ended September 30, 2017. Interest income includes coupon payments received and accrued on our holdings, the net accretion and amortization of purchase discounts and premiums on those holdings, and interest on our cash balances, including those balances held by our counterparties as collateral. The period-over-period increase in interest income was primarily due to an increase in the size of our Credit and Agency portfolios, as well as higher asset yields, for the three-month period ended September 30, 2018, as compared to the three-month period ended September 30, 2017.

For the three-month period ended September 30, 2018, interest income from our Credit portfolio was \$25.4 million, as compared to \$13.3 million for the three-month period ended September 30, 2017. For the three-month period ended September 30, 2018, interest income from our Agency RMBS was \$7.9 million, while for the three-month period ended September 30, 2017, interest income was \$5.9 million. The period-over-period increase in interest income from both our Credit and Agency portfolios was primarily due to the larger size of each of the portfolios as well as higher asset yields for the three-month period ended September 30, 2018.

Some of the variability in our interest income and portfolio yields is due to quarterly adjustments to premium amortization triggered by changes in actual and projected prepayments on our Agency RMBS (accompanied by a corresponding offsetting adjustment to realized and unrealized gains and losses). We refer to this quarterly adjustment as a "Catch-up Premium Amortization Adjustment." The adjustment is calculated as of the beginning of each quarter based on our then assumptions about cash flows and prepayments, and can vary significantly from quarter to quarter.

For the three-month period ended September 30, 2018, we had a negative Catch-up Premium Amortization Adjustment of approximately \$0.2 million, which decreased our interest income. Excluding this Catch-up Premium Amortization Adjustment, the weighted average yield of our overall portfolio was 6.15% for the three-month period ended September 30, 2018. By comparison, for the three-month period ended September 30, 2017 the Catch-up Premium Amortization Adjustment decreased interest income by approximately \$0.4 million. Excluding this Catch-up Premium Amortization Adjustment, the weighted average yield on our overall portfolio for the three-month period ended September 30, 2017 was 5.32%.

The following table details our interest income, average holdings of yield-bearing assets, and weighted average yield based on amortized cost for the three-month periods ended September 30, 2018 and 2017:

(In thousands)	Credit <sup>(1)</sup>			Agency <sup>(1)</sup>			Total <sup>(1)</sup>		
	Interest Income	Average Holdings	Yield	Interest Income	Average Holdings	Yield	Interest Income	Average Holdings	Yield
Three-month period ended September 30, 2018	\$25,367	\$1,192,691	8.51 %	\$7,873	\$979,157	3.22 %	\$33,240	\$2,171,848	6.12 %
Three-month period ended September 30, 2017	\$13,329	\$641,402	8.31 %	\$5,917	\$834,363	2.84 %	\$19,246	\$1,475,765	5.22 %

Amounts exclude interest income on cash and cash equivalents (including when posted as margin) and long (1) positions in U.S. Treasury securities. Also excludes long holdings of corporate securities that represent components of certain relative value trading strategies.

**Base Management Fees**

For the three-month periods ended September 30, 2018 and 2017, base management fee incurred, which is based on total equity at the end of each quarter, was \$1.8 million and \$2.2 million, respectively, net of fee rebates. During the three-month periods ended September 30, 2018, our Manager credited us with a rebate on our management fee, related to those of our CLO investments for which Ellington or one of its affiliates earned CLO management fees, of \$0.4 million and \$0.2 million, respectively. The period-over-period decrease in the base management fee was primarily due to the increase in this fee rebate from our Manager, as well as our smaller capital base in the later period.

**Interest Expense**

Interest expense primarily includes interest on funds borrowed under reverse repos and Total other secured borrowings, interest on our Senior Notes, coupon interest on securities sold short, the related net accretion and amortization of purchase discounts and premiums on those short holdings, and interest on our counterparties' cash collateral held by us. Our total interest expense increased to \$15.7 million for the three-month period ended September 30, 2018, as compared to \$8.2 million for the

Table of Contents

three-month period ended September 30, 2017, largely reflecting the increase in borrowings related to the growth of the Credit and Agency portfolios, as well as the additional expense associated with our Senior Notes, which have a higher cost of funds than our other borrowings. Also contributing to the period-over-period increase in our total interest expense was a higher average cost of funds on our secured borrowings, which rose as LIBOR increased. Additionally, the borrowings related to our loan portfolios constituted a larger share of our total borrowings relative to our securities portfolios. Our loan portfolios are generally more expensive to finance than our securities portfolios. The table below summarizes the components of interest expense for the three-month periods ended September 30, 2018 and 2017.

(In thousands)	For the Three-Month Period Ended	
	September 30, 2018	September 30, 2017
Reverse repos and Total other secured borrowings	\$ 12,855	\$ 5,798
Unsecured senior notes <sup>(1)</sup>	1,195	570
Securities sold short <sup>(2)</sup>	1,590	1,531
Other <sup>(3)</sup>	38	267
Total	\$ 15,678	\$ 8,166

(1) Amount includes the related amortization of debt issuance costs.

(2) Amount includes the related net accretion and amortization of purchase discounts and premiums.

(3) Primarily includes repurchase agreements with negative interest rates, which can occur when we borrow certain bonds that we have sold short.

The following table summarizes our aggregate secured borrowings, which carry interest rates that are based on, or correlated with, LIBOR, including reverse repos and Total other secured borrowings, for the three-month periods ended September 30, 2018 and 2017.

Collateral for Secured Borrowing	For the Three-Month Period Ended					
	September 30, 2018			September 30, 2017		
(In thousands)	Average Borrowings	Interest Expense	Average Cost of Funds	Average Borrowings	Interest Expense	Average Cost of Funds
Credit <sup>(1)</sup>	\$ 761,587	\$ 7,371	3.84 %	\$ 315,731	\$ 2,962	3.72 %
Agency RMBS	899,659	5,087	2.24 %	783,521	2,571	1.30 %
Subtotal <sup>(1)</sup>	1,661,246	12,458	2.98 %	1,099,252	5,533	2.00 %
Corporate Credit Relative Value Trading Strategy	19,334	117	2.40 %	59,347	239	1.60 %
U.S. Treasury Securities	54,080	280	2.05 %	9,014	26	1.14 %
Total	\$ 1,734,660	\$ 12,855	2.94 %	\$ 1,167,613	\$ 5,798	1.97 %
Average One-Month LIBOR			2.11 %			1.23 %
Average Six-Month LIBOR			2.53 %			1.46 %

(1) Excludes U.S. Treasury Securities and investments in our corporate credit relative value trading strategy.

As shown in the table above, the secured borrowings in our corporate credit relative value trading strategy have much lower costs of funds than most of our other Credit-related secured borrowings, because this strategy tends to involve more liquid assets, financed for shorter terms, as compared to our other credit strategies. In light of this large difference in borrowing costs, as well as the more short-term nature and varying overall size of our positions in this strategy, we have broken out in the above table the secured borrowings in that strategy from our other Credit-related secured borrowings. Our average cost of funds on our total Credit portfolio, including our corporate credit relative value trading strategy, was 3.80% and 3.39% for the three-month periods ended September 30, 2018 and 2017.

Among other instruments, we use interest rate swaps to hedge our portfolios against the risk of rising interest rates. If we were to include as a component of our cost of funds the amortization of upfront payments and the actual and accrued periodic payments on our interest rate swaps used to hedge our assets, our total average cost of funds would



decrease to 2.86% and 1.94% for the three-month periods ended September 30, 2018 and 2017, respectively. Our net interest margin, defined as the yield on our portfolio of yield-bearing targeted assets (See—Interest Income above), less our cost of funds (including amortization of upfront payments and actual and accrued periodic payments on interest rate swaps as described above), was 3.26% and 3.28% for the three-month periods ended September 30, 2018 and 2017, respectively. If we were to exclude the

100

---

Table of Contents

impact of the Catch-up Premium Amortization Adjustment, our net interest margin for the three-month periods ended September 30, 2018 and 2017 would be 3.29% and 3.38%, respectively. These metrics do not include costs associated with other instruments that we use to hedge interest rate risk, such as TBAs and futures.

**Incentive Fees**

In addition to the base management fee, our Manager is also entitled to a quarterly incentive fee if our performance (as measured by adjusted net income, as defined in the management agreement) over the relevant rolling four quarter calculation period exceeds a defined return hurdle for the period. Incentive fee incurred for the three-month period ended September 30, 2018 was \$0.4 million. No incentive fee was incurred for the three-month period ended September 30, 2017, since on a rolling four quarter basis, our income did not exceed the prescribed hurdle amount. Because our operating results can vary materially from one period to another, incentive fee expense can also be highly variable.

**Other Investment Related Expenses**

Other investment related expenses consist of servicing fees on our mortgage and consumer loans, as well as various other expenses and fees directly related to our financial assets and certain financial liabilities carried at fair value. For the three-month periods ended September 30, 2018 and 2017 other investment related expenses were \$4.4 million and \$1.9 million, respectively. The increase in other investment related expenses was primarily due to an increase in servicing expenses on our loan portfolios, an increase in dividend expense on common stock sold short, and various other expenses related to our residential and commercial mortgage loan and REO portfolios.

**Other Operating Expenses**

Other operating expenses consist of professional fees, compensation expense related to our dedicated or partially dedicated personnel, administration fees, share-based long term incentive plan unit, or "LTIP Unit," expense, insurance expense, and various other operating expenses necessary to run our business. Other operating expenses exclude management and incentive fees, interest expense, and other investment related expenses. Other operating expenses for the three-month period ended September 30, 2018 were \$2.4 million, as compared to \$2.2 million for the three-month period ended September 30, 2017. The increase in other operating expenses was primarily due to an increase in professional fees.

**Net Realized and Unrealized Gains (Losses) on Investments**

During the three-month period ended September 30, 2018, we had net realized and unrealized losses on investments of \$(4.8) million, as compared to net realized and unrealized losses on investments of \$(0.7) million for the three-month period ended September 30, 2017. Included in our investments are short positions in TBAs, U.S. Treasury securities, and sovereign securities, which are used primarily to hedge interest rate and/or prepayment risk with respect to our other investment holdings.

Net realized and unrealized losses on investments of \$(4.8) million for the three-month period ended September 30, 2018 resulted principally from net realized and unrealized losses on Agency RMBS and UK non-conforming RMBS, partially offset by net realized and unrealized gains on TBAs, CMBS, and small balance commercial mortgage loans. Net realized and unrealized losses on investments of \$(0.7) million for the three-month period ended September 30, 2017 resulted principally from net realized and unrealized losses on CLOs, non-QM mortgage loans, TBAs, consumer loans, and short common stock, partially offset by net realized and unrealized gains on Agency RMBS, U.S. CMBS, European structured products (RMBS and CLOs) as well as European consumer loans, corporate debt, and U.S. Treasury securities.

**Net Realized and Unrealized Gains and (Losses) on Financial Derivatives**

During the three-month period ended September 30, 2018, we had net realized and unrealized gains on our financial derivatives of \$1.5 million, as compared to net realized and unrealized losses of \$(2.9) million for the three-month period ended September 30, 2017. Our financial derivatives consist of interest rate derivatives, which we use primarily to hedge interest rate risk, and of credit derivatives and total return swaps, both of which we use primarily to hedge credit risk, but also for non-hedging purposes. Non-hedging credit derivatives and total return swaps include both long and short positions. Our derivatives also include foreign currency forwards and futures, which we use to hedge foreign currency risk. Our interest rate derivatives are primarily in the form of net short positions in interest rate swaps, Eurodollar futures, and U.S. Treasury Note futures. We also use certain non-derivative instruments, such as TBAs,

corporate debt, U.S. Treasury securities and sovereign debt instruments, to hedge interest rate risk. During both the current and prior periods, our derivative credit hedges were primarily in the form of short positions in instruments tied to corporate credit, credit default swaps on asset-backed indices and individual MBS, and total return swaps.

Table of Contents

Net realized and unrealized gains of \$1.5 million on our financial derivatives for the three-month period ended September 30, 2018 resulted primarily from net realized and unrealized gains on our interest rate swaps, futures, and CDS on asset-backed securities, partially offset by net realized and unrealized losses on CDS on corporate bond indices and total return swaps. Net realized and unrealized gains on our foreign currency hedges more than offset the net foreign exchange transaction and translation losses. Translation and transaction net losses were incurred in connection with our non-dollar denominated European assets.

Net realized and unrealized losses on our financial derivatives of \$(2.9) million for the three-month period ended September 30, 2017 resulted primarily from net losses on our foreign exchange currency hedges, CDS on asset-backed and corporate bond indices, and interest rate swaps. These net losses were partially offset by net gains on CDS on corporate bonds. Our CDS on corporate bonds include credit hedging positions as well as positions related to our corporate credit relative value trading strategy. Net foreign exchange transaction and translation gains more than offset the net realized and unrealized losses on our foreign currency forwards. Translation and transaction net gains were incurred in connection with our non-dollar denominated European assets.

Results of Operations for the Nine-Month Periods Ended September 30, 2018 and 2017

Summary of Net Increase in Shareholders' Equity from Operations

For the nine-month periods ended September 30, 2018 and 2017 we had a net increase in shareholders' equity resulting from operations of \$48.9 million and \$26.5 million, respectively. The period-over-period increase in our results of operations was primarily due to a reversal in our net realized and unrealized gains and (losses) on our financial derivatives, excluding currency hedges, an increase in net investment income, and an increase in net unrealized gains on other secured borrowings, partially offset by a decrease in net realized and unrealized gains on investments. For the nine-month period ended September 30, 2018 we had net realized and unrealized gains on our financial derivatives, excluding currency hedges, of \$7.7 million, as compared to net realized and unrealized losses of \$(10.3) million for the nine-month period ended September 30, 2017. We had an increase of \$0.8 million of unrealized gains on other secured borrowings for the nine-month period ended September 30, 2018 and we also had an increase in net investment income of \$4.8 million, period over period. We had net realized and unrealized gains on investments of \$8.0 million for the nine-month period ended June 30, 2018 as compared to \$9.2 million for the nine-month period ended September 30, 2017. Total return based on changes in "net asset value" or "book value" for our common shares was 9.43% for the nine-month period ended September 30, 2018, as compared to 4.40% for the nine-month period ended September 30, 2017. Total return on our common shares is calculated based on changes in net asset value per share or book value per share and assumes reinvestment of dividends.

Net Investment Income

Net investment income was \$32.9 million and \$28.1 million for the nine-month periods ended September 30, 2018 and 2017, respectively. Net investment income consists of interest and other income less total expenses. The period-over-period increase in net investment income was due to an increase in total investment income, principally interest income, which was partially offset by an increase in total expenses, mainly interest expense and other investment related expenses.

Interest Income

Interest income was \$95.3 million for the nine-month period ended September 30, 2018 as compared to \$65.8 million for the nine-month period ended September 30, 2017. Interest income includes coupon payments received and accrued on our holdings, the net accretion and amortization of purchase discounts and premiums on those holdings, and interest on our cash balances, including those balances held by our counterparties as collateral. The period-over-period increase in interest income was primarily due to an increase in the size of our Credit portfolio for the nine-month period ended September 30, 2018, as compared to the nine-month period ended September 30, 2017.

For the nine-month period ended September 30, 2018, interest income from our Credit portfolio was \$65.6 million, as compared to \$39.0 million for the nine-month period ended September 30, 2017. This period-over-period increase was primarily due to the larger size of the Credit portfolio for the nine-month period ended September 30, 2018, partially offset by lower average asset yields on this portfolio. For the nine-month period ended September 30, 2018, interest income from our Agency RMBS was \$22.9 million, as compared to \$20.9 million for the nine-month period ended September 30, 2017. This period-over-period increase was primarily due to the larger size of the Agency portfolio for

the nine-month period ended September 30, 2018, partially offset by lower asset yields and a reversal of the Catch-up Premium Amortization Adjustment. For the nine-month period ended September 30, 2018, we had a negative Catch-up Premium Amortization Adjustment of \$0.2 million, which decreased our interest income. Excluding this Catch-up Premium Amortization Adjustment, the weighted average yield on our overall portfolio for the nine-month period ended September 30, 2018 was 5.82%. By comparison, for the nine-month period ended September 30, 2017 the Catch-up Premium Amortization Adjustment increased interest income by

Table of Contents

approximately \$1.5 million. Excluding this Catch-up Premium Amortization Adjustment, the weighted average yield on our overall portfolio for the nine-month period ended September 30, 2017 was 5.39%.

The following table details our interest income, average holdings of yield-bearing assets, and weighted average yield based on amortized cost for the nine-month periods ended September 30, 2018 and 2017:

(In thousands)	Credit <sup>(1)</sup>			Agency <sup>(1)</sup>			Total <sup>(1)</sup>		
	Interest Income	Average Holdings	Yield	Interest Income	Average Holdings	Yield	Interest Income	Average Holdings	Yield
Nine-month period ended September 30, 2018	\$65,595	\$1,075,728	8.13 %	\$22,911	\$953,934	3.20 %	\$88,506	\$2,029,662	5.81 %
Nine-month period ended September 30, 2017	\$38,950	\$596,599	8.70 %	\$20,943	\$848,145	3.29 %	\$59,893	\$1,444,744	5.53 %

Amounts exclude interest income on cash and cash equivalents (including when posted as margin) and long (1) positions in U.S. Treasury securities. Also excludes long holdings of corporate securities that represent components of certain relative value trading strategies.

**Base Management Fees**

For the nine-month periods ended September 30, 2018 and 2017, base management fee incurred, which is based on total equity at the end of each quarter, was \$5.8 million and \$6.9 million, respectively, net of fee rebates. During the nine-month periods ended September 30, 2018 and 2017, our Manager credited us with rebates on our management fee, related to those of our CLO investments for which Ellington or one of its affiliates earned CLO management fees, of \$0.9 million and \$0.2 million, respectively. The period-over-period decrease in the base management fee was primarily due to the period-over-period increase in this fee rebate from our Manager as well as our smaller capital base in the later period.

**Interest Expense**

Interest expense primarily includes interest on funds borrowed under reverse repos and Total other secured borrowings, interest on our Senior Notes, coupon interest on securities sold short, the related net accretion and amortization of purchase discounts and premiums on those short holdings, and interest on our counterparties' cash collateral held by us. Our total interest expense increased to \$40.6 million for the nine-month period ended September 30, 2018, as compared to \$21.8 million for the nine-month period ended September 30, 2017, largely reflecting the increase in borrowings related to the growth of both the Credit and the Agency portfolios, as well as the additional expense associated with our Senior Notes, which have a higher cost of funds than our other borrowings. Also contributing to the period-over-period increase in our total interest expense was a higher average rate on our secured borrowings, which rose as LIBOR increased.

The table below summarizes the components of interest expense for the nine-month periods ended September 30, 2018 and 2017.

(In thousands)	For the Nine-Month Period Ended	
	September 30, 2018	September 30, 2017
Reverse repos and Total other secured borrowings	\$32,321	\$ 15,079
Unsecured senior notes <sup>(1)</sup>	3,585	570
Securities sold short <sup>(2)</sup>	4,295	4,759
Other <sup>(3)</sup>	423	1,386
Total	\$40,624	\$ 21,794

(1) Amount includes the related amortization of debt issuance costs.

(2) Amount includes the related net accretion and amortization of purchase discounts and premiums.

(3) Primarily includes repurchase agreements with negative interest rates, which can occur when we borrow certain bonds that we have sold short.



Table of Contents

The following table summarizes our aggregate secured borrowings, which carry interest rates that are based on, or correlated with, LIBOR, including reverse repos and Total other secured borrowings, for the nine-month period ended September 30, 2018 and 2017.

Collateral for Secured Borrowing	For the Nine-Month Period Ended					
	September 30, 2018			September 30, 2017		
	Average Borrowings	Interest Expense	Average Cost of Funds	Average Borrowings	Interest Expense	Average Cost of Funds
(In thousands)						
Credit <sup>(1)</sup>	\$673,942	\$18,666	3.70 %	\$275,624	\$7,557	3.67 %
Agency RMBS	877,482	13,008	1.98 %	794,547	6,653	1.12 %
Subtotal <sup>(1)</sup>	1,551,424	31,674	2.73 %	1,070,171	14,210	1.78 %
Corporate Credit Relative Value Trading Strategy	18,993	311	2.19 %	60,219	677	1.50 %
U.S. Treasury Securities	22,626	336	1.99 %	31,823	192	0.81 %
Total	\$1,593,043	\$32,321	2.71 %	\$1,162,213	\$15,079	1.73 %
Average One-Month LIBOR			1.91 %			1.04 %
Average Six-Month LIBOR			2.38 %			1.42 %

(1) Excludes U.S. Treasury Securities and investments in our corporate credit relative value trading strategy.

As shown in the table above, the secured borrowings in our corporate credit relative value trading strategy have much lower costs of funds than most of our other Credit-related secured borrowings, because this strategy tends to involve more liquid assets, financed for shorter terms, as compared to our other credit strategies. In light of this large difference in borrowing costs, as well as the more short-term nature and varying overall size of our positions in this strategy, we have broken out in the above table the secured borrowings in that strategy from our other Credit-related secured borrowings. Our average cost of funds on our total Credit portfolio, including our corporate credit relative value trading strategy, was 3.66% and 3.28% for the nine-month periods ended September 30, 2018 and 2017.

Among other instruments, we use interest rate swaps to hedge our portfolios against the risk of rising interest rates. If we were to include as a component of our cost of funds the amortization of upfront payments and the actual and accrued periodic payments on our interest rate swaps used to hedge our assets, our total average cost of funds would decrease to 2.64% for the nine-month period ended September 30, 2018 and increase to 1.76% for the nine-month period ended September 30, 2017. Our net interest margin, defined as the yield on our portfolio of yield-bearing targeted assets (See—Interest Income above), less our cost of funds (including amortization of upfront payments and actual and accrued periodic payments on interest rate swaps as described above), was 3.17% and 3.77% for the nine-month periods ended September 30, 2018 and 2017, respectively. If we were to exclude the impact of the Catch-up Premium Amortization Adjustment, our net interest margin for the nine-month periods ended September 30, 2018 and 2017 would be 3.18% and 3.63%, respectively. These metrics do not include costs associated with other instruments that we use to hedge interest rate risk, such as TBAs and futures.

**Incentive Fees**

In addition to the base management fee, our Manager is also entitled to a quarterly incentive fee if our performance (as measured by adjusted net income, as defined in the management agreement) over the relevant rolling four quarter calculation period exceeds a defined return hurdle for the period. Incentive fee incurred for the nine-month period ended September 30, 2018 was \$0.7 million. No incentive fee was incurred for the nine-month period ended September 30, 2017, since on a rolling four quarter basis, our income did not exceed the prescribed hurdle amount. Because our operating results can vary materially from one period to another, incentive fee expense can also be highly variable.

**Other Investment Related Expenses**

Other investment related expenses consist of servicing fees on our mortgage and consumer loans, as well as various other expenses and fees directly related to our financial assets and certain financial liabilities carried at fair value. For the nine-month periods ended September 30, 2018 and 2017 other investment related expenses were \$11.1 million and \$5.5 million, respectively. The increase in other investment related expenses was primarily due to an increase in



servicing expenses on our loan portfolios, an increase in dividend expense on common stock sold short, and various other expenses related to our residential and commercial mortgage loan and REO portfolios.

104

---

Table of Contents

## Other Operating Expenses

Other operating expenses consist of professional fees, compensation expense related to our dedicated or partially dedicated personnel, administration fees, share-based LTIP Unit expense, insurance expense, and various other operating expenses necessary to run our business. Other operating expenses exclude management and incentive fees, interest expense, and other investment related expenses. Other operating expenses were \$7.0 million for the nine-month period ended September 30, 2018 as compared to \$6.5 million for the nine-month period ended September 30, 2017. The increase in other operating expenses for the nine-month period ended September 30, 2018 was primarily due to an increase in compensation expense and professional fees.

## Net Realized and Unrealized Gains (Losses) on Investments

During the nine-month period ended September 30, 2018, we had net realized and unrealized gains on investments of \$8.0 million, as compared to net realized and unrealized gains on investments of \$9.2 million for the nine-month period ended September 30, 2017. Included in our investments are short positions in TBAs, U.S. Treasury securities, and sovereign securities, which are used primarily to hedge interest rate and/or prepayment risk with respect to our other investment holdings.

Net realized and unrealized gains on investments of \$8.0 million for the nine-month period ended September 30, 2018 resulted principally from net realized and unrealized gains on ABS backed by European consumer loans, TBAs, non-exchange-traded equity investments, CMBS, non-Agency RMBS, U.S. Treasury securities, U.S. consumer loans, exchange-traded equity, and small balance commercial loans and REO, partially offset by net realized and unrealized losses on Agency RMBS and residential mortgage loans.

Net realized and unrealized gains on investments of \$9.2 million for the nine-month period ended September 30, 2017 resulted principally from net realized and unrealized gains on European structured products (RMBS, CMBS, and CLOs), U.S. CLOs, non-Agency MBS, small balance commercial and residential mortgage loans, and corporate debt, partially offset by net realized and unrealized losses on Agency RMBS, TBAs, non-QM loans, U.S. consumer loans, and short common stock.

## Net Realized and Unrealized Gains and (Losses) on Financial Derivatives

During the nine-month period ended September 30, 2018, we had net realized and unrealized gains on our financial derivatives of \$11.0 million, as compared to net realized and unrealized losses of \$(16.5) million for the nine-month period ended September 30, 2017. Our financial derivatives consist of interest rate derivatives, which we use primarily to hedge interest rate risk, and of credit derivatives and total return swaps, both of which we use primarily to hedge credit risk, but also for non-hedging purposes. Non-hedging credit derivatives and total return swaps include both long and short positions. Our derivatives also include foreign currency forwards and futures, which we use to hedge foreign currency risk. Our interest rate derivatives are primarily in the form of net short positions in interest rate swaps, Eurodollar futures, and U.S. Treasury Note futures. We also use certain non-derivative instruments, such as TBAs, corporate debt, U.S. Treasury securities and sovereign debt instruments, to hedge interest rate risk. During both the current and prior periods, our derivative credit hedges were primarily in the form of short positions in instruments tied to corporate credit, credit default swaps on asset-backed indices and individual MBS, and total return swaps.

Net realized and unrealized gains of \$11.0 million on our financial derivatives for the nine-month period ended September 30, 2018 resulted primarily from net realized and unrealized gains on our interest rate swaps, CDS on corporate bonds, and futures, partially offset by net realized and unrealized losses on total return swaps and credit default swaps on asset-backed and corporate bond indices. Net realized and unrealized gains on our foreign currency hedges more than offset the net foreign exchange transaction and translation losses. Translation and transaction net losses were incurred in connection with our non-dollar denominated European assets.

Net realized and unrealized losses on our financial derivatives of \$(16.5) million for the nine-month period ended September 30, 2017 resulted primarily from net losses on our foreign exchange currency hedges, CDS on asset-backed and corporate bond indices, total return swaps, and interest rate swaps. Net foreign exchange transaction and translation gains more than offset the net realized and unrealized losses on our foreign currency forwards.

Translation and transaction net gains were incurred in connection with our non-dollar denominated European assets.

## Liquidity and Capital Resources

Liquidity refers to our ability to meet our cash needs, including repaying our borrowings, funding and maintaining positions in MBS and other assets, making distributions in the form of dividends, and other general business needs. Our short-term (one year or less) and long-term liquidity requirements include acquisition costs for assets we acquire, payment of our base management fee and incentive fee, compliance with margin requirements under our repurchase agreements, or "repos," reverse repos, TBAs, and financial derivative contracts, repayment of reverse repo borrowings and other secured borrowings to

105

---

Table of Contents

the extent we are unable or unwilling to extend such borrowings, payment of our general operating expenses, payment of interest payments on our Senior Notes, and payment of our quarterly dividend. Our capital resources primarily include cash on hand, cash flow from our investments (including principal and interest payments received on our investments and proceeds from the sale of investments), borrowings under reverse repos and other secured borrowings, and proceeds from equity and debt offerings. We expect that these sources of funds will be sufficient to meet our short-term and long-term liquidity needs.

The following summarizes our reverse repos:

(In thousands)	Reverse Repurchase Agreements	
	Average Borrowed Funds During the Period	Borrowed Funds Outstanding at End of the Period
Nine-Month Period Ended September 30, 2018	\$1,401,836	\$1,636,039
Nine-Month Period Ended September 30, 2017	\$1,093,474	\$1,029,810

The following summarizes our borrowings under reverse repos by remaining maturity:

(In thousands)	September 30, 2018	
Remaining Days to Maturity	Outstanding Borrowings	%
30 Days or Less	\$286,694	17.5 %
31 - 60 Days	574,941	35.1 %
61 - 90 Days	423,198	25.9 %
91 - 120 Days	154,947	9.5 %
121 - 150 Days	2,593	0.2 %
151 - 180 Days	26,389	1.6 %
181 - 360 Days	103,881	6.3 %
> 360 Days	63,396	3.9 %
	\$1,636,039	100.0 %

Reverse repos involving underlying investments that we sold prior to September 30, 2018, for settlement following September 30, 2018, are shown using their original maturity dates even though such reverse repos may be expected to be terminated early upon settlement of the sale of the underlying investment.

The amounts borrowed under our reverse repo agreements are generally subject to the application of "haircuts." A haircut is the percentage discount that a reverse repo lender applies to the market value of an asset serving as collateral for a reverse repo borrowing, for the purpose of determining whether such reverse repo borrowing is adequately collateralized. As of September 30, 2018, the weighted average contractual haircut applicable to the assets that serve as collateral for our outstanding reverse repo borrowings (excluding reverse repo borrowings related to U.S. Treasury securities) was 26.2% with respect to Credit assets, 5.5% with respect to Agency RMBS assets, and 15.8% overall. As of December 31, 2017 these respective weighted average contractual haircuts were 30.4%, 5.6%, and 15.1%.

We expect to continue to borrow funds in the form of reverse repos as well as other similar types of financings. The terms of our reverse repo borrowings are predominantly governed by master repurchase agreements, which generally conform to the terms in the standard master repurchase agreement as published by the Securities Industry and Financial Markets Association as to repayment and margin requirements. In addition, each lender may require that we include supplemental terms and conditions to the standard master repurchase agreement. Typical supplemental terms and conditions include the addition of or changes to provisions relating to margin calls, net asset value requirements, cross default provisions, certain key person events, changes in corporate structure, and requirements that all controversies related to the repurchase agreement be litigated in a particular jurisdiction. These provisions may differ for each of our lenders.

Edgar Filing: Ellington Financial LLC - Form 10-Q

As of September 30, 2018 and December 31, 2017, we had \$1.6 billion and \$1.2 billion, respectively, of borrowings outstanding under our reverse repos. As of September 30, 2018, the remaining terms on our reverse repos ranged from 1 day to 821 days, with a weighted average remaining term of 96 days. As of December 31, 2017, the remaining terms on our reverse repos ranged from 2 days to 1094 days, with a weighted average remaining term of 99 days. Our reverse repo borrowings were with a total of 21 and 23 counterparties as of September 30, 2018 and December 31, 2017, respectively. As of September 30, 2018 and December 31, 2017, our reverse repos, excluding those on U.S. Treasury securities, had a weighted

Table of Contents

average borrowing rate of 2.88% and 1.98%, respectively. As of September 30, 2018, our reverse repos had interest rates ranging from 0.23% to 5.62%. As of December 31, 2017, our reverse repos had interest rates ranging from (1.25)% to 4.94%. Investments transferred as collateral under reverse repos had an aggregate fair value of \$1.9 billion and \$1.4 billion as of September 30, 2018 and December 31, 2017, respectively. The interest rates of our reverse repos have historically moved in close relationship to short-term LIBOR rates, and in some cases are explicitly indexed to short-term LIBOR rates and reset accordingly. It is expected that amounts due upon maturity of our reverse repos will be funded primarily through the roll/re-initiation of reverse repos and, if we are unable or unwilling to roll/re-initiate our reverse repos, through free cash and proceeds from the sale of securities.

Although we typically finance the vast majority of our holdings of Agency RMBS, as of September 30, 2018 and December 31, 2017, we held unencumbered Agency pools, on a settlement date basis, in the amount of \$0.5 million and \$4.5 million, respectively.

The following table details total outstanding borrowings, average outstanding borrowings, and the maximum outstanding borrowings at any month end for each quarter under reverse repurchase agreements for the past twelve quarters:

Quarter Ended	Borrowings		Maximum Borrowings Outstanding at Any Month End
	Outstanding at Quarter End	Average Borrowings Outstanding	
	(In thousands)		
September 30, 2018	\$ 1,636,039	\$ 1,534,490	\$ 1,672,077
June 30, 2018	1,421,506	1,398,813	1,471,052
March 31, 2018	1,330,943	1,269,297	1,330,943
December 31, 2017 <sup>(1)</sup>	1,209,315	1,050,018	1,209,315
September 30, 2017	1,029,810	1,078,165	1,133,586
June 30, 2017	1,119,238	1,121,884	1,213,525
March 31, 2017	1,086,271	1,083,251	1,157,648
December 31, 2016	1,033,581	989,453	1,033,581
September 30, 2016	983,814	1,026,841	1,081,484
June 30, 2016	1,070,105	1,124,885	1,160,096
March 31, 2016	1,149,064	1,178,552	1,205,385
December 31, 2015 <sup>(2)</sup>	1,174,189	1,335,360	1,401,378

Our reverse repo borrowings as of December 31, 2017 increased relative to our average reverse repo borrowings outstanding for the quarter ended December 31, 2017. At the end of the third quarter of 2017 we repaid a substantial amount of our outstanding reverse repo borrowings on non-QM loans in anticipation of completing a securitization transaction. This reduced our average outstanding reverse repo borrowings for the fourth quarter of 2017. Additionally at the end of the year we increased the size of our Credit portfolio by purchasing certain more liquid, lower-risk securities which we subsequently financed through reverse repurchase agreements.

Our outstanding reverse repo borrowings as of December 31, 2015 declined relative to our average reverse repo borrowings outstanding for the quarter ended December 31, 2015. In light of continued and anticipated significant market volatility, during the quarter ended December 31, 2015, we net sold Agency RMBS, thereby reducing our outstanding reverse repo borrowings and increasing our cash holdings in order to be more defensively positioned. In addition to our borrowings under reverse repurchase agreements, we have entered into various other types of transactions to finance certain of our non-QM and consumer loans, and commercial mortgage loans and REO; these transactions are accounted for as collateralized borrowings. As of September 30, 2018 and December 31, 2017 we had outstanding borrowings related to such transactions in the amount of \$203.8 million and \$183.0 million, respectively, which is reflected under the captions "Other secured borrowings" and "Other secured borrowings, at fair value" on the Consolidated Statement of Assets, Liabilities, and Equity. As of September 30, 2018, the fair value of non-QM and

consumer loans collateralizing our Total other secured borrowings was \$266.5 million. As of December 31, 2017, the fair value of non-QM and consumer loans collateralizing our Total other secured borrowings was \$222.1 million. See Note 7 in the notes to our consolidated financial statements for further information on our other secured borrowings. As of September 30, 2018, we had \$86.0 million outstanding of unsecured Senior Notes, which mature in September 2022. 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. The Senior Notes have an effective interest rate, including debt issuance costs, of 5.55%. We may redeem the Senior Notes, at our 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, we may redeem the Senior Notes in whole or in part at a redemption price equal to 100% of the aggregate principal amount of the

Table of Contents

Senior Notes to be redeemed, plus accrued and unpaid interest. See Note 7 of the notes to our consolidated financial statements for further detail on the Senior Notes.

As of September 30, 2018, we had an aggregate amount at risk under our reverse repos with 21 counterparties of approximately \$310.1 million, and as of December 31, 2017, we had an aggregate amount at risk under our reverse repos with 23 counterparties of approximately \$219.3 million. Amounts at risk represent the excess, if any, for each counterparty of the fair value of collateral held by such counterparty over the amounts outstanding under reverse repos. If the amounts outstanding under reverse repos with a particular counterparty are greater than the collateral held by the counterparty, there is no amount at risk for the particular counterparty. Amount at risk as of September 30, 2018 and December 31, 2017 does not include approximately \$3.9 million and \$4.2 million, respectively, of net accrued interest receivable, which is defined as accrued interest on securities held as collateral less interest payable on cash borrowed.

Our derivatives are predominantly subject to bilateral collateral arrangements or clearing in accordance with the Dodd-Frank Act. We may be required to deliver or receive cash or securities as collateral upon entering into derivative transactions. Changes in the relative value of derivative transactions may require us or the counterparty to post or receive additional collateral. Entering into derivative contracts involves market risk in excess of amounts recorded on our balance sheet. In the case of cleared derivatives, the clearinghouse becomes our counterparty and the future commission merchant acts as an intermediary between us and the clearinghouse with respect to all facets of the related transaction, including the posting and receipt of required collateral.

As of September 30, 2018, we had an aggregate amount at risk under our derivative contracts with 12 counterparties of approximately \$21.9 million. We also had \$7.4 million of initial margin for cleared over-the-counter, or "OTC," derivatives posted to central clearinghouses as of that date. As of December 31, 2017, we had an aggregate amount at risk under our derivatives contracts with 12 counterparties of approximately \$30.9 million. We also had \$9.9 million of initial margin for cleared OTC derivatives posted to central clearinghouses as of that date. Amounts at risk under our derivatives contracts represent the excess, if any, for each counterparty of the fair value of our derivative contracts plus our collateral held directly by the counterparty less the counterparty's collateral held by us. If a particular counterparty's collateral held by us is greater than the aggregate fair value of the financial derivatives plus our collateral held directly by the counterparty, there is no amount at risk for the particular counterparty.

We purchase and sell TBAs and Agency pass-through certificates on a when-issued or delayed delivery basis. The delayed delivery for these securities means that these transactions are more prone to market fluctuations between the trade date and the ultimate settlement date, and therefore are more vulnerable, especially in the absence of margining arrangements with respect to these transactions, to increasing amounts at risk with the applicable counterparties. As of September 30, 2018, in connection with our forward settling TBA and Agency pass-through certificates, we had an aggregate amount at risk with six counterparties of approximately \$3.6 million. As of December 31, 2017, in connection with our forward settling TBA and Agency pass-through certificates, we had an aggregate amount at risk with seven counterparties of approximately \$2.4 million. Amounts at risk in connection with our forward settling TBA and Agency pass-through certificates represent the excess, if any, for each counterparty of the net fair value of the forward settling transactions plus our collateral held directly by the counterparty less the counterparty's collateral held by us. If a particular counterparty's collateral held by us is greater than the aggregate fair value of the forward settling transactions plus our collateral held directly by the counterparty, there is no amount at risk for the particular counterparty.

We held cash and cash equivalents of approximately \$53.6 million and \$47.2 million as of September 30, 2018 and December 31, 2017, respectively. In 2018, we increased our holdings of certain more liquid, lower-risk assets. We believe that these assets can be sold in a relatively short time period, to redeploy into higher-yielding strategies, and in the meantime these assets provide the opportunity for solid positive carry. As a result of these purchases, our cash and cash equivalents were significantly lower as of September 30, 2018, compared to December 31, 2017.

On February 6, 2018, our Board of Directors approved the adoption of a share repurchase program under which we were authorized to repurchase up to 1.55 million common shares. This program was superseded by the adoption of a subsequent, similar, share repurchase program, approved by our Board of Directors on June 13, 2018, under which we are authorized to repurchase up to 1.55 million common shares. The program, which is open-ended in duration, allows



us to make repurchases from time to time on the open market or in negotiated transactions, including under 10b5-1 plans. Repurchases are at our discretion, subject to applicable law, share availability, price and our financial performance, among other considerations. 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.

During the nine-month period ended September 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. We did not repurchase any common shares during the three-month period

Table of Contents

ended September 30, 2018. From inception of the current share repurchase program through November 6, 2018, we have repurchased 144,117 common shares at an average price per share of \$15.52 and a total cost of \$2.2 million. Additionally we commenced an "at-the-market" offering program, or "ATM program," by entering into equity distribution agreements with third party sales agents under which we are authorized to offer and sell common shares from time to time with a maximum aggregate gross offering price of up to \$150 million. As of September 30, 2018 we have not yet issued common shares under the ATM program.

We may declare dividends based on, among other things, our earnings, our financial condition, our working capital needs, and new investment opportunities. Dividends are declared and paid on a quarterly basis in arrears. The declaration of dividends to our shareholders and the amount of such dividends are at the discretion of our Board of Directors. During the nine-month period ended September 30, 2018, we paid total dividends in the amount of \$38.2 million related to the three-month periods ended December 31, 2017, March 31, 2018, and June 30, 2018. In October 2018, our Board of Directors approved a dividend related to the third quarter of 2018 in the amount of \$0.41 per share, or approximately \$12.6 million, payable on December 17, 2018 to shareholders of record as of November 30, 2018. During the nine-month period ended September 30, 2017, we paid total dividends in the amount of \$44.3 million related to the three-month periods ended December 31, 2016, March 31, 2017, and June 30, 2017.

The following tables set forth the dividend distributions authorized by the Board of Directors payable to shareholders and LTIP Unit holders for the periods indicated below:

Nine-Month Period Ended September 30, 2018

(In thousands except per share amounts)	Dividend Per Share	Dividend Amount	Record Date	Payment Date
First Quarter	\$0.41	\$ 12,650	June 1, 2018	June 15, 2018
Second Quarter	\$0.41	\$ 12,651	August 31, 2018	September 17, 2018
Third Quarter	\$0.41	\$ 12,599 *	November 30, 2018	December 17, 2018

\* Estimated

Nine-Month Period Ended September 30, 2017

(In thousands except per share amounts)	Dividend Per Share	Dividend Amount	Record Date	Payment Date
First Quarter	\$0.45	\$14,757	June 1, 2017	June 15, 2017
Second Quarter	\$0.45	\$14,757	September 1, 2017	September 15, 2017
Third Quarter	\$0.41	\$13,300	December 1, 2017	December 15, 2017

For the nine-month period ended September 30, 2018, our operating activities used net cash in the amount of \$421.1 million, and our reverse repo activity used to finance many of our investments (including repayments, in conjunction with the sales of investments, of amounts borrowed under our reverse repo agreements) provided net cash of \$426.7 million. We received \$83.4 million in proceeds from the issuance of Other secured borrowings, and we used \$27.1 million for principal payments on Other secured borrowings. Thus our operating activities, when combined with our reverse repo financings, Other secured borrowings (net of repayments), provided net cash of \$62.0 million for the nine-month period ended September 30, 2018. In addition, contributions from non-controlling interests provided cash of \$11.9 million. We used \$38.2 million to pay dividends, \$11.7 million for distributions to non-controlling interests (our joint venture partners), and \$17.6 million to repurchase common shares. As a result there was an increase in our cash holdings of \$6.4 million, from \$47.7 million as of December 31, 2017 to \$54.0 million as of September 30, 2018. For the nine-month period ended September 30, 2017, our operating activities used net cash in the amount of \$124.2 million, and our reverse repo activity used to finance many of our investments (including repayments, in conjunction with the sales of investments, of amounts borrowed under our reverse repo agreements) used net cash of \$3.8 million. We received proceeds from the issuance of other secured borrowings of \$94.9 million and used \$21.0 million to pay down principal on other secured borrowings. We also received \$85.1 million in proceeds from the issuance of Senior Notes, net of debt issuance costs paid. Thus our operating activities, when combined with our reverse repo financings, other secured borrowings, and the net borrowings related to our Senior Notes, provided net cash of \$31.0 million for

the nine-month period ended September 30, 2017. In addition, contributions from non-controlling interests provided cash of \$14.2 million. We used \$44.3 million to pay dividends, \$8.2 million for distributions to non-controlling interests (our joint venture partners), and \$4.8 million to repurchase common shares. As a result there was an decrease in our cash holdings of \$12.1 million from \$123.9 million as of December 31, 2016 to \$111.8 million as of September 30, 2017.

## Table of Contents

Based on our current portfolio, amount of free cash on hand, debt-to-equity ratio, and current and anticipated availability of credit, we believe that our capital resources will be sufficient to enable us to meet anticipated short-term and long-term liquidity requirements. However, the unexpected inability to finance our Agency RMBS portfolio would create a serious short-term strain on our liquidity and would require us to liquidate much of that portfolio, which in turn would require us to restructure our portfolio to maintain our exclusion from registration as an investment company under the Investment Company Act. Steep declines in the values of our Credit assets financed using reverse repos, or in the values of our derivative contracts, would result in margin calls that would significantly reduce our free cash position. Furthermore, a substantial increase in prepayment rates on our assets financed by reverse repos could cause a temporary liquidity shortfall, because we are generally required to post margin on such assets in proportion to the amount of the announced principal paydowns before the actual receipt of the cash from such principal paydowns. If our cash resources are at any time insufficient to satisfy our liquidity requirements, we may have to sell assets or issue additional debt or equity securities.

Although we may from time to time enter into financing arrangements that limit our leverage, our investment guidelines do not limit the amount of leverage that we may use, and we believe that the appropriate leverage for the particular assets we hold depends on the credit quality and risk of those assets, as well as the general availability and terms of stable and reliable financing for those assets.

### Contractual Obligations and Commitments

We are a party to a management agreement with our Manager. Pursuant to that agreement, our Manager is entitled to receive a base management fee, an incentive fee, reimbursement of certain expenses and, in certain circumstances, a termination fee. Such fees and expenses do not have fixed and determinable payments. For a description of the management agreement provisions, see Note 9 of the notes to our consolidated financial statements.

We have numerous contractual obligations and commitments related to our outstanding borrowings (see Note 7 of the notes to our consolidated financial statements) and related to our financial derivatives (see Note 5 of the notes to our consolidated financial statements).

See Note 17 of the notes to our consolidated financial statements for further detail on our other contractual obligations and commitments.

### Off-Balance Sheet Arrangements

As of September 30, 2018, we did not have any material relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Further, we have not guaranteed any obligations of unconsolidated entities nor do we have any commitment to provide funding to any such entities that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or resources that would be material to an investor in our securities. As such, we are not materially exposed to any market, credit, liquidity, or financing risk that could arise if we had engaged in such relationships. See Note 6, Note 7, and Note 9 of the notes to our consolidated financial statements for further detail about a multi-seller consumer loan securitization transaction we entered into in August 2016.

At September 30, 2018 we have not entered into any reverse repurchase agreements for which delivery of the borrowed funds is not scheduled until after period end.

### Inflation

Virtually all of our assets and liabilities are interest rate sensitive in nature. As a result, interest rates and other factors influence our performance far more so than does inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates. Our activities and balance sheet are measured with reference to historical cost and/or fair market value without considering inflation.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

The primary components of our market risk at September 30, 2018 are related to credit risk, prepayment risk, and interest rate risk. We seek to actively manage these and other risks and to acquire and hold assets that we believe justify bearing those risks, and to maintain capital levels consistent with those risks.

#### Credit Risk

We are subject to credit risk in connection with many of our assets, especially non-Agency MBS, mortgage loans,

110

---

## Table of Contents

distressed corporate debt, leveraged loans, CLOs, and consumer loans.

Credit losses on real estate loans can occur for many reasons, including, but not limited to, poor origination practices, fraud, faulty appraisals, documentation errors, poor underwriting, legal errors, poor servicing practices, weak economic conditions, decline in the value of homes, businesses or commercial properties, special hazards, earthquakes and other natural events, over-leveraging of the borrower on a property, reduction in market rents and occupancies and poor property management services, changes in legal protections for lenders, reduction in personal income, job loss, and personal events such as divorce or health problems. Property values are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, national, regional, and local economic conditions (which may be adversely affected by industry slowdowns and other factors), local real estate conditions (such as an oversupply of housing), changes or continued weakness in specific industry segments, construction quality, age and design, demographic factors, and retroactive changes to building or similar codes.

The ability of borrowers to repay consumer loans may be adversely affected by numerous borrower-specific factors, including unemployment, divorce, major medical expenses or personal bankruptcy. General factors, including an economic downturn, high energy costs or acts of God or terrorism, may also affect the financial stability of borrowers and impair their ability or willingness to repay their loans. Whenever any of our consumer loans defaults, we are at risk of loss to the extent of any deficiency between the liquidation value of the collateral, if any, securing the loan, and the principal and accrued interest of the loan. Many of our consumer loans are unsecured, or are secured by collateral (such as an automobile) that depreciates rapidly; as a result, these loans may be at greater risk of loss than residential real estate loans.

Our corporate debt investments, especially our distressed corporate debt investments, our lower-rated or unrated CLO investments, and our corporate debt investments in mortgage-related entities, have significant risk of loss, and our efforts to protect these investments may involve large costs and may not be successful. We also will be subject to significant uncertainty as to when and in what manner and for what value the corporate debt in which we directly or indirectly invest will eventually be satisfied (e.g., through liquidation of the obligor's assets, an exchange offer or plan of reorganization involving the debt securities or a payment of some amount in satisfaction of the obligation). In addition, these investments could involve loans to companies that are more likely to experience bankruptcy or similar financial distress, such as companies that are thinly capitalized, employ a high degree of financial leverage, are in highly competitive or risky businesses, are in a start-up phase, or are experiencing losses.

Similarly, we are exposed to the risk of potential credit losses on the other assets in our Credit portfolio.

For many of our investments, the two primary components of credit risk are default risk and severity risk.

### Default Risk

Default risk is the risk that borrowers will fail to make principal and interest payments on mortgage loans or other debt obligations. We may attempt to mitigate our default risk by, among other things, opportunistically entering into credit default swaps and total return swaps. These instruments can reference various MBS indices, corporate bond indices, or corporate entities. We often rely on third-party servicers to mitigate our default risk, but such third-party servicers may have little or no economic incentive to mitigate loan default rates.

### Severity Risk

Severity risk is the risk of loss upon a borrower default on a mortgage loan or other secured or unsecured debt obligation. Severity risk includes the risk of loss of value of the property or other asset, if any, securing the mortgage loan or debt obligation, as well as the risk of loss associated with taking over the property or other asset, if any, including foreclosure costs. We often rely on third-party servicers to mitigate our severity risk, but such third-party servicers may have little or no economic incentive to mitigate loan loss severities. In the case of mortgage loans, such mitigation efforts may include loan modification programs and prompt foreclosure and property liquidation following a default. Many of our consumer loans are unsecured, or are secured by collateral (such as an automobile) that depreciates rapidly; as a result, these loans may be at greater risk of loss than residential real estate loans. Pursuing any remaining deficiency following a default on a consumer loan is often difficult or impractical, especially when the borrower has a low credit score, making further substantial collection efforts unwarranted. In addition, repossessing personal property securing a consumer loan can present additional challenges, including locating and taking physical possession of the collateral. We rely on servicers who service these consumer loans, to, among other things, collect

principal and interest payments on the loans and perform loss mitigation services, and these servicers may not perform in a manner that promotes our interests. In the case of corporate debt, if a company declares bankruptcy, the bankruptcy process has a number of significant inherent risks. Many events in a bankruptcy proceeding are the product of contested matters and adversarial proceedings and are beyond the control of the creditors. A bankruptcy filing by a company whose debt we have purchased may adversely and permanently affect such company. If the proceeding results in liquidation, the liquidation value of the company may have deteriorated significantly from what we believed to be the case at the time of our initial investment. The

Table of Contents

duration of a bankruptcy proceeding is also difficult to predict, and our return on investment can be adversely affected by delays until a plan of reorganization or liquidation ultimately becomes effective. A bankruptcy court may also re-characterize our debt investment as equity, and subordinate all or a portion of our claim to that of other creditors. This could occur even if our investment had initially been structured as senior debt.

**Prepayment Risk**

Prepayment risk is the risk of change, whether an increase or a decrease, in the rate at which principal is returned in respect of fixed-income assets in our portfolio, including both through voluntary prepayments and through liquidations due to defaults and foreclosures. Most significantly, our portfolio is exposed to the risk of changes in prepayment rates of mortgage loans underlying our RMBS, and changes in prepayment rates of certain of our consumer loan holdings. This rate of prepayment is affected by a variety of factors, including the prevailing level of interest rates as well as economic, demographic, tax, social, legal, and other factors. Changes in prepayment rates will have varying effects on the different types of securities in our portfolio, and we attempt to take these effects into account in making asset management decisions. Additionally, increases in prepayment rates may cause us to experience losses on our interest only securities and inverse interest only securities, as those securities are extremely sensitive to prepayment rates. Prepayment rates, besides being subject to interest rates and borrower behavior, are also substantially affected by government policy and regulation. For example, the government sponsored HARP program, which was designed to encourage mortgage refinancings, continues to be a factor in prepayment risk, and could become a bigger factor if eligibility requirements are expanded or qualification processes are streamlined. Mortgage rates remain very low by historical standards, and as a result, prepayments continue to represent a meaningful risk, especially with respect to our Agency RMBS.

**Interest Rate Risk**

Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations, and other factors beyond our control. We are subject to interest rate risk in connection with most of our assets and liabilities. For some securities in our portfolio, the coupon interest rates on, and therefore also the values of, such securities are highly sensitive to interest rate movements, such as inverse floating rate RMBS, which benefit from falling interest rates. We selectively hedge our interest rate risk by entering into interest rate swaps, TBAs, U.S. Treasury securities, Eurodollar futures, U.S. Treasury futures, and other instruments. In general, such hedging instruments are used to offset the large majority of the interest rate risk we estimate to arise from our Agency RMBS positions. Hedging instruments may also be used to offset a portion of the interest rate risk arising from certain non-Agency MBS positions.

The following sensitivity analysis table shows the estimated impact on the value of our portfolio segregated by certain identified categories as of September 30, 2018, assuming a static portfolio and immediate and parallel shifts in interest rates from current levels as indicated below.

(In thousands)	Estimated Change for a Decrease in Interest Rates by				Estimated Change for an Increase in Interest Rates by			
	50 Basis Points		100 Basis Points		50 Basis Points		100 Basis Points	
	Market Value	% of Total Equity	Market Value	% of Total Equity	Market Value	% of Total Equity	Market Value	% of Total Equity
Agency RMBS	\$9,906	1.61 %	\$15,983	2.59 %	\$(13,736)	(2.23)%	\$(31,302)	(5.08)%
Non-Agency RMBS, CMBS, Other ABS, and Mortgage Loans	6,564	1.06 %	12,956	2.1 %	(6,735 )	(1.09)%	(13,642 )	(2.21)%
U.S. Treasury Securities, and Interest Rate Swaps, Options, and Futures	(12,988)	(2.10)%	(26,437 )	(4.29)%	12,530	2.03 %	24,603	3.99 %
Mortgage-Related Derivatives	10	— %	23	— %	(8 )	— %	(15 )	— %
Corporate Securities and Derivatives on Corporate Securities	(405 )	(0.07)%	(778 )	(0.12)%	436	0.07 %	904	0.15 %
Repurchase Agreements and Reverse Repurchase Agreements	(2,292 )	(0.37)%	(4,578 )	(0.74)%	2,289	0.37 %	4,572	0.74 %



Edgar Filing: Ellington Financial LLC - Form 10-Q

Total \$795 0.13 % \$(2,831 ) (0.46)% \$(5,224 ) (0.85)% \$(14,880) (2.41)%

112

---

## Table of Contents

The preceding analysis does not show sensitivity to changes in interest rates for instruments for which we believe that the effect of a change in interest rates is not material to the value of the overall portfolio and/or cannot be accurately estimated. In particular, this analysis excludes certain of our holdings of corporate securities and derivatives on corporate securities, and reflects only sensitivity to U.S. interest rates.

Our analysis of interest rate risk is derived from Ellington's proprietary models as well as third-party information and analytics. Many assumptions have been made in connection with the calculations set forth in the table above and, as such, there can be no assurance that assumed events will occur or that other events will not occur that would affect the outcomes. For example, for each hypothetical immediate shift in interest rates, assumptions have been made as to the response of mortgage prepayment rates, the shape of the yield curve, and market volatilities of interest rates; each of the foregoing factors can significantly and adversely affect the fair value of our interest rate-sensitive instruments.

The above analysis utilizes assumptions and estimates based on management's judgment and experience, and relies on financial models, which are inherently imperfect; in fact, different models can produce different results for the same securities. While the table above reflects the estimated impacts of immediate parallel interest rate increases and decreases on specific categories of instruments in our portfolio, we actively trade many of the instruments in our portfolio, and therefore our current or future portfolios may have risks that differ significantly from those of our September 30, 2018 portfolio estimated above. Moreover, the impact of changing interest rates on fair value can change significantly when interest rates change by a greater amount than the hypothetical shifts assumed above.

Furthermore, our portfolio is subject to many risks other than interest rate risks, and these additional risks may or may not be correlated with changes in interest rates. For all of the foregoing reasons and others, the table above is for illustrative purposes only and actual changes in interest rates would likely cause changes in the actual fair value of our portfolio that would differ from those presented above, and such differences might be significant and adverse. See "Business—Special Note Regarding Forward-Looking Statements."

### Item 4. Controls and Procedures

#### Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosures. An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of September 30, 2018. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2018.

#### Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the three-month period ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II—OTHER INFORMATION

### Item 1. Legal Proceedings

Neither we nor Ellington nor its affiliates (including our Manager) are currently subject to any legal proceedings that we or our Manager consider material. Nevertheless, we and Ellington and its affiliates operate in highly regulated markets that currently are under regulatory scrutiny, and we and Ellington and its affiliates have received, and we expect in the future that we and they may receive, inquiries and requests for documents and information from various federal, state and foreign regulators. For example, in January 2017, we received a subpoena from the SEC requesting documents, communications, and other information relating primarily to a loan originator and the loans originated by such originator, our analyses of such loans, the purchases and securitizations of such loans by us and by certain third parties, and the servicing of such loans. We have responded to the subpoena and intend to continue to cooperate with any further requests. Ellington has advised us that, at the present time, it is not aware that any material legal proceeding against us or Ellington or its affiliates is contemplated in connection with any such inquiries or requests.

We and Ellington cannot provide any assurance that these or any future such inquiries and requests will not result in further investigation of or the initiation of a proceeding against us or Ellington or its affiliates or that, if any such investigation or proceeding were to arise, it would not materially adversely affect us. For a discussion of certain risks to which we or Ellington or its affiliates could be exposed as a result of inquiries or requests for documents and information received by us or Ellington or its affiliates, see "Risk Factors—We or Ellington or its affiliates may

Table of Contents

be subject to regulatory inquiries or proceedings" included in Part 1A of our Annual Report on Form 10-K for the year ended December 31, 2017.

Item 1A. Risk Factors

For information regarding factors that could affect our results of operations, financial condition, and liquidity, see the risk factors discussed under "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017. There have been no material changes from these previously disclosed risk factors. See also "Special Note Regarding Forward-Looking Statements," included in Part I, Item 2 of this Quarterly Report on Form 10-Q.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Unregistered Sales of Equity Securities

On September 12, 2018, we granted 3,610 LTIP units to Thomas Robards, 3,610 LTIP units to Ronald I. Simon, Ph.D., 3,610 LTIP units to Edward Resendez, and 3,610 LTIP units to Lisa Mumford, as compensation for serving as directors. These grants were made pursuant to our 2017 Equity Incentive Plan and such grants were exempt from the registration requirements of the Securities Act based on the exemption provided in Section 4(a)(2) of the Securities Act.

Item 6. Exhibits

Exhibit Description

- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes – Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes – Oxley Act of 2002
- 32.1\* Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes – Oxley Act of 2002
- 32.2\* Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes – Oxley Act of 2002

- 101 The following financial information from Ellington Financial LLC's Annual Report on Form 10-Q for the nine-month period ended September 30, 2018, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statement of Assets, Liabilities, and Equity, (ii) Consolidated Statement of Operations, (iii) Consolidated Statements of Changes in Equity, (iv) Consolidated Statements of Cash Flows and (v) Notes to Consolidated Financial Statements.

\*Furnished herewith. These certifications are not deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

Table of Contents

SIGNATURES

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

ELLINGTON FINANCIAL LLC.

Date: November 8, 2018 By: /s/ LAURENCE PENN

Laurence Penn  
Chief Executive Officer  
(Principal Executive Officer)

ELLINGTON FINANCIAL LLC.

Date: November 8, 2018 By: /s/ JR HERLIHY

JR Herlihy  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

Table of Contents

EXHIBIT INDEX

Exhibit Description

- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes – Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes – Oxley Act of 2002
- 32.1\* Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes – Oxley Act of 2002
- 32.2\* Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes – Oxley Act of 2002

101 The following financial information from Ellington Financial LLC's Annual Report on Form 10-Q for the nine-month period ended September 30, 2018, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statement of Assets, Liabilities, and Equity, (ii) Consolidated Statement of Operations, (iii) Consolidated Statements of Changes in Equity, (iv) Consolidated Statements of Cash Flows and (v) Notes to Consolidated Financial Statements.

\*Furnished herewith. These certifications are not deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.